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CONTENTS

15 FEBRUARY 1989

POLITICAL

CPRCC Official on Party Building in Countryside [DANG JIAN No 10]	1
Report on Work After Separation of Party, Government [DANG JIAN No 10]	3
Reevaluation of Reform Movement of 1898 [XIN GUANCHANG No 22]	7

ECONOMIC

NATIONAL AFFAIRS, POLICY

Three Types of Chronic Inflation, Threat to Price Reform Analyzed [JIAGE LILUN YU SHIJIAN No 10]	10
Market Economy Difficulties, Suggestions [CAIMAO JINGJI No 10]	12
Understanding, Applying Law of Value [JIAGE LILUN YU SHIJIAN No 11]	19

FINANCE, BANKING

Communications Bank Expands Overseas Business [XINHUA]	23
Elimination of Inflation, Deficit [JINGJIXUE ZHOUBAO 18 Dec]	24
Discussion of Country's Financial Problems, Solutions [JINGJIXUE ZHOUBAO 18 Dec]	25
Causes of 'Financial Crisis' [JINGJIXUE ZHOUBAO 18 Dec]	27
Number of Financial Organizations Growing [CEI Database 24 Jan]	28
Bank Official Urges Organizing Stock Markets Based on National Situation [ZHONGGUO SHIBAO 12 Dec]	28
Recent Measures To Promote Development of Financial Market [CAIMAO JINGJI No 10]	29
Construction Bank President on Key Priority Projects Policy [XINHUA]	34
Loans to Rural Enterprises To Be Halved [XINHUA]	35
Interest Rates for Short-Term Interbank Loans [CEI Database 24 Jan]	35

INDUSTRY

Guangxi Reports Industrial Progress [Nanning Radio]	36
Shanghai Industrial Production Growth Slackens [CEI Database 9 Feb]	36

SMALL-SCALE ENTERPRISES

Bank Official on Expected Effects of Tightened Credit Policy [JINRONG SHIBAO 7 Dec]	37
Township Enterprises in Beijing Face 'Three Major Problems' [JINRONG SHIBAO 7 Dec]	37

FOREIGN TRADE, INVESTMENT

Bank Supports Joint Ventures [XINHUA]	38
\$2 Billion Invested in Foreign-Based Joint Ventures [CHINA DAILY 19 Jan]	39
Selection by Need for Foreign-Funded Projects [CEI Database 27 Jan]	39
Coastal Raw Materials Exhibit Opens in Hong Kong [XINHUA]	39
Country Plans No Silk Price Increases [XINHUA]	40
Foreign Investment Sought for Coal Mines [CEI Database 25 Jan]	40
Provincial Export Commodity Trade Fair Ends [Harbin Radio]	40
Anhui To Hold Foreign Economic Trade Talks [XINHUA]	41
Foreign Investment Increases in Guangzhou [CEI Database 25 Jan]	41
Development of Foreign Trade in Hebei [CEI Database 27 Jan]	41
Hebei's Exports of Sundry Goods Top \$1.2 Billion [HEBEI RIBAO]	41
Hubei Increases Use of Foreign Funds [XINHUA]	41
Hunan Maintains 119 Foreign-Invested Enterprises [CEI Database 3 Feb]	42
Foreign Trade Increases in Inner Mongolia Pilot Zone [CEI Database 26 Jan]	42
Jiangsu Rural Firms Set Up Foreign Joint Ventures [CEI Database 27 Jan]	42
Silk Exports From Jiangsu Province Expected To Increase [CEI Database 1 Feb]	42
Shanghai Eyes World Garment Market [XINHUA]	42

Technological Exports From Shanghai Quadruple [XINHUA]	43
Tianjin's Foreign Investment Increases [CEI Database 27 Jan]	43
Tibet Border Area Develops Foreign Trade [XINHUA 25 Jan]	43
Zhejiang Contracts More Labor Service Abroad [CEI Database 9 Feb]	43

ECONOMIC ZONES

Hainan Governor Welcomes Foreign Investment [Beijing Radio]	44
---	----

LABOR

Trade Union Leader Urges Unity With Workers [XINHUA]	44
--	----

POPULATION

Report on Couples Who Flee From One-Child Policy [ZHONGGUO TONGXUN SHE 20 Jan]	44
--	----

TRANSPORTATION

Freight Volume Between USSR, Heilongjiang [CEI Database 3 Feb]	45
More Local Railways; Fujian Electronics Exports [XINHUA 25 Jan]	45
Shanghai Shipyard Launches First Export Ship for 1989 [XINHUA 26 Jan]	45

AGRICULTURE

World Bank Loan Helps Yunnan [Kunming Radio]	45
Agricultural Bank Starts Foreign Exchange Service [XINHUA]	45
Taxes Planned on Alcohol Production [XINHUA]	46
Revision of Grain Distribution System Proposed [ZHONGGUO XINGZHENG GUANLI No 10] ...	46
Animal Husbandry Developing [XINHUA]	48
Inner Mongolian Herdsmen Increase Earnings in 1988 [XINHUA]	49
Jiangxi Tobacco Area [JIANGXI RIBAO 7 Jan]	49
Liaoning Increases Farm Project Investments [CEI Database 8 Feb]	49
Shaanxi Sees 'Bountiful Harvest of Stock Raising' in 1988 [Xian Radio]	49
Shandong Improves Livestock Production [CEI Database 31 Jan]	50
Animal Husbandry Increases in Tianjin [TIANJIN RIBAO 14 Jan]	50
Yunnan Grain Procurement [YUNNAN RIBAO 7 Jan]	50

SOCIAL

Bai Hua Criticized for Remarks Blaming Victims of Japanese Aggression [Hong Kong CHIUSHIH NIENTAI No 228]	51
Fang Lizhi Interviewed on Patriotism, Political Implications [Hong Kong CHIUSHIH NIENTAI No 228]	53

REGIONAL

CENTRAL-SOUTH REGION

Guangdong Holds Literary, Art Workers' Meeting [Guangzhou Radio]	56
--	----

NORTHEAST REGION

Liaoning CYL Committee Elects Secretary at Plenary Session [LIAONING RIBAO 14 Jan]	56
Quan Shuren Urges Settling Teachers' Back Pay [Beijing Radio]	56
Liaoning Armed Police Force Confers Ranks on Officers [Shenyang Radio]	56

TAIWAN

Li Teng-hui, Lin Yang-kang Rivalry Outlined [SHIHTAI CHOUKAN 3 Dec]	57
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CPCCC Official on Party Building in Countryside
*40050123a Beijing DANG JIAN [PARTY BUILDING]
in Chinese No 10, 5 Oct 88 pp 25-26*

[Article by Lu Feng 0712 2800, deputy director of the Organization Department of the CPC Central Committee: Conscientiously Get a Good Grip on the Building of Basic-Level Party Organizations in the Rural Areas—Speech (Excerpts) given at a Forum of Secretaries of 12 County (City) Party Committees]

[Text] Not many people are here at this forum of secretaries of county (city) party committees, which was convened by the Organization Department of the CPC Central Committee, but the forum has substantial content. In the course of the forum, the comrades conscientiously studied the spirit of the national conference on organizational work. In particular they analyzed the situation that the party faces in building its basic-level organizations in the rural areas. They exchanged cases and experiences, and they expressed many good opinions on how to get a good grip on building the party's basic-level organizations in the new situation.

From a look at the entire country we see that the county party committees have scored many successes in the building of these basic-level organizations and that they have accumulated some new experiences. However, it must also be seen that a considerable number of county party committees have not yet handled well the relationship between building the economy and building the party. They have not grasped well the guiding ideology for building the party in the new period. They have not paid sufficient attention to the building of the party's basic-level organizations in the rural areas.

1. The Question of Building the Leading Groups in the Party's Basic-Level Organizations in the Rural Areas

The national conference on organizational work pointed out that, in accordance with the party's basic line in the initial stage of socialism, the main task of the party's basic-level organizations in the rural areas should be, proceeding from the actual situation in a given locality, to organize and lead the party members and the masses in developing the commodity economy and gradually achieving the common prosperity. At the same time, another task is to strengthen the building of spiritual civilization, so as to guide the peasants to build a new socialist countryside that is both prosperous and civilized. Therefore, we must build the party branches in the rural areas into a strong nucleus that can organize and lead the peasants to accomplish this task.

A considerable number of party branches in the rural areas are now vigorously organizing and leading the peasants and the masses to develop the rural economy, so as to get on the road to a common prosperity, and they are also handling well the building of spiritual civilization. This kind of party branch has cohesiveness, appeal, and fighting power. It enjoys the masses' universal trust.

The collective welfare and collective institutions in these localities are also being run fairly well, thereby lightening the burden on the peasants, increasing income, and harmonizing the relations between the cadres and the masses. However, there are some party branches that, when implementing the party's policy of making the people prosper, are not playing their proper role of organizing and leading. As a result, the collective economic forces are quite weak and there is no cohesiveness in party leadership. Some party branches have not found the way to lead the masses in creating wealth, and the cadres also lack the skill to do this. For many years the appearance of villages has remained as it was before, and there has been little improvement in the life of the masses. All day long the cadre are busy collecting grain, receiving bills, and apportioning work and expenses. The burden on the masses is very heavy, and the relations between the cadres and the masses are quite strained. A large number of facts prove that only if the rural party branches insist on making the development of productive forces the center of their work, in line with the party's relevant policies, while supporting the peasants in the development of the individual economy, vigorously developing the collective economy in all its forms, and leading the masses in jointly creating wealth, can they truly obtain the backing and support of the masses.

The key to enhancing the building of the party's basic-level organizations in the rural area is the good selection of branch secretaries, and this means that we must have standards for the selection. The general standard is the possession of both ability and political integrity. Of course, in different historical periods there have been different connotations and specific requirements in this standard. In line with the task of the basic-level organizations in the rural areas, the national conference on organizational work put forward specific standards, under the new circumstances, for branch secretaries. They are: good political quality, fairly young, fairly high level of education, sincere support for the party's principles and policies in the rural areas, fairness and honesty, and the ability to help the masses achieve the common prosperity. In selecting a branch secretary, we should mainly investigate his tangible achievements in rural reform and rural construction. As a rural branch secretary, he must have the experience and the method for leading the masses to create wealth. He must be able to bear hardships first and seek ease and comfort later, and he must be honest in performing his official duties.

We must open broad channels for the selection of branch secretaries. We must take the mass line and constantly implement the principles of openness, democracy, and equality. We should make a point of selecting, from among party members who have returned to their native places, and who are either young intellectuals or demobilized army men, and who are honest in their work, those outstanding party members who truly want to make contributions to the achievement of the common prosperity. With regard to the small number of villages that have been backward for a long time and that have branch

secretaries who are simply not qualified, we can pick some comrades from enterprises and organizations in the townships and towns and, through elections, make them branch secretaries. Some of them can first be made acting branch secretaries; after gaining the trust of the party members and the masses, they can then stand for election. With regard to newly selected branch secretaries, we must pay attention to giving them an education in the party's basic knowledge and a good session of training, and also form institutions, so as to improve their ideological and political quality. Through training we will make them understand the party's principles and policies, and make them understand how to be good branch secretaries, how to enhance the building of their own party branch, and how to do good ideological and political work in the rural areas.

2. The Question of Building the Ranks of Party Members

While enhancing the building of party branches in the rural areas, we must bet a good grip on the building of the ranks of party members there. We must give play to the vanguard exemplary role of the great number of party members in reforming and modernizing the rural areas. We must put the party members in the first line of reform and construction, where they will be tempered and tested and can fully display their enthusiasm and creativity. We must encourage them to make achievements in developing the commodity economy and in leading the masses to attain the common prosperity and build the socialist spiritual civilization. We must encourage them to make achievements in safeguarding the masses' interests, in resisting unhealthy trends and evil practices, and in promoting in the rural areas social ethics and the overall progress of society. At the same time we must put all party members under the strict supervision of the party organizations. This supervision will be beneficial to spurring them on to make progress; it can also be a powerful safeguard against the evil ways of some party members. It is a pressing matter of the moment to set up and perfect this supervision. The party member's role is mainly displayed in his doing the work at his own post well. The ways and means for doing this should be suited to circumstances and to the blazing of new trails. Some localities have set up "party-masses groups for the joint creation of wealth." Some places have initiated "four groups and one integration" activities (namely, in accordance with each party member's different situation, forming a working staff group, a financial supervision group, an ideological and political work group; and a universal law propaganda group; and establishing a system of integrated households of party members). These experiences are worth drawing on for reference and are worth popularizing.

Currently we must pay particular attention to enhancing the support of party members who go outside or come from outside. In some counties, this situation has already been taken seriously. In Document No 1 (1986) of the

Organization Department of the CPC Central Committee there are some provisions for improving the establishment of basic-level party organizations in the rural areas and for enhancing the party's support of its members who go outside. All counties should make regular inspections of the situation with regard to the enforcement of these provisions. At the same time, in line with the developing and changing situation, they should continue to look for new experiences.

We must conscientiously and appropriately handle the work of dealing with unqualified party members. The main problem currently existing in this work is that some basic-level party organizations, when dealing with unqualified party members, tend toward leniency in their organizational handling of them, with the idea of waiting and seeing how they do in the future. Therefore, we must pay particular attention to improving the understanding of basic-level party organizations with regard to running the party with strictness, so as to overcome this idea of being afraid to give offense. In all places there certainly must be a tight grip on experimental-point work, which, on the foundations of the experiences obtained at the experimental points, must be led step by step.

The key to building the ranks of party members well is to persist in educating them so as to improve their quality. The focal point of party member education is education in the party's basic line and basic knowledge. At the same time we must reform the ways and means of party member education by providing it with more vivid images and audio-visual aids. We must make a point of finding and commending outstanding models in rural reform and construction, and this also should become an institution.

3. The Question of How County Party Committees Are To Strengthen Their Leadership Over the Building of Basic-Level Party Organizations in the Rural Areas

The county party committee bears the more direct and the more important responsibility for strengthening the building of basic-level party organizations in the rural areas. It certainly must handle well the relationship between the building of the economy and the building of the party. In some places the building of the basic-level party organizations has not been done well, the main reason being that this relationship has not been handled well. In some cases only the party has been built; in other cases only the economy has been built. The common drawback in these two tendencies is that, consciously or unconsciously, the building of the economy and the building of the party are separated and there is no understanding of their relationship of dialectical unity. Although these two tendencies are manifested in different ways, we should conscientiously correct them. We must make the building of the economy the center of our work. However, if we do not build the party well there will be no organizational guarantee for the building of the economy and for the entire process of modernization. Party committees at all levels must put the question of party building in an important place on their agenda. The members of these committees must not only

raise their consciousness of the commodity economy; they must also raise their consciousness of party building, simultaneously keeping a tight grip on economic work and party building and keeping a tight grip on the two civilizations. If the county party committee increases its cohesiveness and the guiding ideology is made clear, ways will be found to do the work and they will be creative.

While building the basic-level party organizations in the rural areas, the county party committees must get a good grip on their own building and act as models for the other party organizations in the rural areas. A county party committee is the leading organization in the county. Its role and image directly affect the party's prestige and fighting power. Comrade Yue Ziyang [6390 4793 7122] has recently stressed time and again that maintaining the honesty of party and government organizations has a bearing on the people's support of or opposition to reform and to the success or failure of reform. Therefore, the county party committee certainly must become integrated with reality. It must make an effort to get a tight grip on its own building. It must act as a model for all party members in the county in being honest and capable in political administration and in waging arduous struggle.

Finally, I hope that this forum will play a promotional role for county party committees in getting a good grip on the building of the party's basic-level organizations in the rural areas. I also hope that you comrades will, in line with the spirit of the national conference on organizational work, become integrated with the actual situation in your own regions, make better achievements, and bring forth more new experiences, so that these organizations will be "built one story higher."

Report on Work After Separation of Party, Government

40050123b Beijing DANG JIAN [PARTY BUILDING]
in Chinese No 10, 5 Oct 88 pp 35-36

[Article: "How City and County Party Committees Do Their Work After the Separation of Party and Government; Survey of Some Cities and Counties in Shandong, Hebei, and Gansu Provinces"—abridgement of a survey report written by members of the Party Building Office of the CPC Central Committee's Organization Department]

[Text] How do city and county party committees work after the separation of party and government? On this question we made a survey of several cities and counties in Shandong, Hebei, and Gansu provinces.

After the party and government were separated in these cities and counties, the party committees in them no longer, as they did in the past, took on all the affairs of government administration. Rather, in accordance with the focus of their responsibilities, they made correct policy decisions on local major issues, coordinated the

activities of all organizations in their own region, and enhanced the building of the party itself. In doing this work they accumulated some experiences.

I. Correct Exercise of the Right To Make Policy Decisions on Local Major Issues

After the separation of party and government, the fact that the city and county party committees are to make correct policy decisions on local major issues, and also are to see to it that they are thoroughly implemented, is a decisive circumstance and important part of their exercise of their leadership right in their own region.

The first difficulty encountered was the correct determination of the scope of a "major issue." In line with the spirit of the party Central Committee's decisions and the actual situation in their own region, as well as the practice in recent years, the party committees in these cities and counties concluded: all issues in the region that concern the situation as a whole or that have a significant effect on this situation should be put within the scope of a local major issue. These issues include: major administrative policies in economic construction and social development; other important matters pertaining to the economic and political systems and to other fields that are being reformed; issues in construction and reform that show a trend; and other issues that affect the situation as a whole.

The center of all the party's work is the building of the economy. The leading party and government organizations in the cities and counties must manage this building. The experimental-point cities and counties found the essential points in differentiating the functions and responsibilities of party and government to be: with regard to medium- and long-term strategy, the city or county party committee will make the policy decisions, and the city or county government will organize and direct the specific implementation of these policies. For example, the Weifang City CPC Committee put forward the guiding policy of "developing the north and south and improving the middle" in its strategy for economic development. The principal basis for and the principal content of this policy are: To the north the city borders on the Bohai Sea, and there is a large area of sand and mud. Therefore, the major effort is put on developing the aquatic breeding and salinization industries. South of the city is a mountainous area, where trees are planted and grass seed sown for the development of orchards and animal husbandry. In the middle is the base for economic development that raises the level of intensive farming.

We now turn to issues in construction and reform that show a trend. In 1985, during the development of township and town enterprises in Xiongxian County, Hebei Province, there appeared a trend for products to be manufactured in a rough and slipshod way and for output value and profit to be pursued in a onesided way. After discussing this trend the county party committee

promptly conducted countywide education on maintaining the socialist direction of production and business, thereby causing the township and town enterprises to quickly take the correct path.

The exercise by a party committee of the right to make policy decisions is an important matter related to the party's and people's interests. With such major responsibilities as it has, a party committee cannot afford to be incautious. Therefore, what are the important principles that must be applied to insure the correctness of a party committee's policy decisions? The experiences of these cities and counties show that there are at least three important principles that must be applied: 1) seek truth from facts and make scientific demonstrations; 2) take the lead in making policy decisions in a collective way; and 3) display democracy and hold wide-ranging consultations.

A. Emphasis on the Coordination of the Activities of All Kinds of Organizations

Coordination of the activities of all kinds of organizations in their own regions is one of the important responsibilities of city and county party committees.

These cities and counties have come to the conclusion that unifying the thinking of all sides is the fundamental way to achieve good coordination. For good coordination they unify the thinking and standardize the actions of all sides by means of the party's line, principles and policies and by means of the state's laws and decrees. On the basis of making clear the functions of all sides, they formulate systems and mechanisms for coordination between all sides. When contradictions arise in work, the county or city party committee must correctly handle the relations between all sides and turn the contradictions into productive work.

The main form of coordination is the joint meeting. Weifang City's main ways and means of coordination are: 1) Uphold and further perfect the system in which the principal responsible persons in the city's organization, namely, the members of its Discipline Inspection Commission, NPC Standing Committee, and CPPCC, attend as nonvoting delegates the meetings of the party committee's standing committee, thereby giving them a better understanding of the city party committee's plans and of the citywide situation. 2) Uphold and constantly perfect the system in which the secretary general of the city's party committee and the secretary generals of the city's NPC Standing Committee, government, and CPPCC attend meetings as nonvoting delegates. With the city party committee's secretaries leading the way, they then exchange situation reports, implement the city party committee's plan, and study matters pertaining to the solution of the problem of effecting the necessary coordinated actions. 3) Uphold and implement the system in which the principal responsible persons in all political and legal departments jointly take care of the official business within the party. Thus, with the city party committee's responsible person in charge leading

the way, the activities of all departments are coordinated. 4) Establish a system in which the city party committee's responsible person in charge at regular intervals goes to the mass organizations and studies work together with them.

The city and county party committees also take seriously the matter of coordinating well the supervisory relationships between the "four big leading groups," so that each one of them is put in its correct position and does not, in the name of supervision, willfully interfere with the government's specific work.

B. Enhancement of the Party's Own Building

The initial experiences of the several cities and counties in these three provinces after the separation of party and government show that the party committees are freed from onerous and complex administrative affairs. Thus they can devote more energy to getting a better grip on their own building. From March to December 1987, of the 64 important topics discussed at their meetings 26 concerned party building.

In enhancing the building of the party, work was done mainly in the following aspects:

First, the building of the leading group was enhanced in order to improve its ability to lead and develop the socialist commodity economy and other work. The leaders of these party committees not only had to be of good ideological and political quality; they also had to have knowledge of a fairly comprehensive nature.

Second, to meet the needs of the new situation in which there is both reform and opening up to the outside, the party's organizational building was tackled. First of all, centering on the new situations and new characteristics that have appeared after the development of the commodity economy, the leaders readjusted the establishments and the modes of activities of some basic-level party organizations. Next they strengthened the organizational management of party members and cadres. Many cities and counties have put into practice the tenure and objective responsibility system for party committees and branches and for leading cadres. They have also put into practice the post responsibility system for party members and ordinary cadres. At the same time, it has been stipulated that all these cadres are to be appraised and assessed and that, based on the results of the assessment, the decisions will be made to appoint them to posts or dismiss them from posts. Finally, in line with the needs for the development of the commodity economy, in the recruitment of new party members attention is paid to readjusting the party member structure.

Third, during reform and opening up to the outside, the education of party members is strengthened, the exemplary and leading role of party members is displayed, and the role of basic-level party branches as fighting bastions is enhanced.

First of all, rural party members are educated to understand clearly how to play their exemplary and leading role in the new situation in which there is both reform and opening up to the outside. In 1987, on a provincewide scale, Shandong began wide-ranging discussions on "how are communist party members to play their vanguard and exemplary role in the new situation?" In the second half of the same year, in Gansu Province the Wuwei and Zhangye city party committees and the Linze and Yuzhong county party committees organized all their party members to begin a discussion on the "image of party members in the new era." Through this discussion many party members gained a clear understanding of the direction and content of the role they are to play in the new era. They summed up their role as the "five example settings," namely, setting an example in publicizing the party's policies, setting an example in observing discipline and abiding by law, setting an example in taking part in reform, setting an example in creating wealth while leading the masses to jointly create wealth, and setting an example in correctly handling the relationships between the state, the collective, and the individual.

Second, party members are educated in ideals and in the party's objectives in order to get them to help the masses to jointly create wealth. The party committees of Gaocheng and other counties (cities) in Hebei Province, centering on the question of building the economy, conduct education and do work in this respect. They educate the party members and leading cadres on the party's objectives and on its basic line and principles in the initial stage of socialism. They call upon the party members and leading cadres to "work at being an official while creating wealth on the side," so as to work for the well-being of the masses, and to launch activities in "performing meritorious, pioneering deeds." They educate the rural party members on the goal of attaining the common prosperity, calling on veteran party members to help new party members to study the party's fine traditions and thus enhance their concept of the party's spirit. They call on new party members to help those veteran party members who are deficient in their knowledge of the commodity economy to develop this economy.

Third, they reeducate the party members in the goals of joining the party and being cadres. In Hebei Province the Renqiu City CPC Committee has mobilized the party members and cadres to take part in discussions begun in their prefecture (Cangzhou) on "why one joins the party, what one does at one's post, and what legacy to leave when departing one's post." This discussion has played a notable role in raising the ideological and political level of the party members and cadres, and in heightening their enthusiasm to do more good deeds for the people.

Fourth, they get a grip on the building party spirit and party discipline in order to solve the new problems that have appeared after reform and opening up to the outside began. By doing thorough-going, painstaking ideological work and taking many kinds of measures, in 1987 the Gaocheng County CPC Committee recouped 4.48 million

yuan of public funds that had either been embezzled or were in arrears; took back 3,851 residential bases that had been over occupied; and solved 305 problems of collective enterprises that had low-price contracts. The broad masses were highly pleased with this action, and the party's prestige among them rose markedly.

II. Several Problems Worthy of Serious Attention

Looking at the initial situation in the experimental points—the several counties and cities in the three provinces—we see that in the comprehensive carrying out of the reform of separating the party and the government, we need to solve better in practice the following problems.

A. Problems of Ideological Understanding

The reform in which the party and the government are separated is a major reform in our party's leadership system. It is also a completely new task. The main problems in ideological understanding now that need to be better solved are:

The first problem is how to explain better, by integrating theory with practice, the necessity for separation of party and government. In specific practice some comrades are still not clear in principle why it is that only by this separation will the party's leadership be enhanced and improved. Therefore, it is an important task, in solving this problem of ideological understanding, to further strengthen education on applying theory to reality and to explain more clearly the necessity and great significance of this separation.

The second problem is how to draw more clearly the line of demarcation between party and government responsibilities. The report of the 13th CPC Congress fixed the responsibilities of local party committees in exercising political leadership, but in practice there are still differences in understanding how to handle these responsibilities in a specific way.

The third problem is that, with the party committee handing over some of its functions to the government, can the latter take them on? The source of this problem is that some comrades have the idea of "not daring to separate."

The fourth problem that propaganda should now emphasize and call attention is how to evaluate objectively the leadership system and the party work of the past. To say that in the past the leadership was excellent but that the image of comrades doing party work was ugly would not be advantageous for the smooth separation of party and government.

B. Pay a High Degree of Attention to the Problem of Cadre Circulation Caused by the Change in the Organizational Functions and Find a Rational Solution to It

In the separation of party and government and in the reform of organizations, there appeared in these cities and counties the problem of a large number of cadres being in need of reassignment or appropriate placement. The practice in the three provinces was: old ways for old persons and new ways for new persons. But the line between "old" and "new" was not drawn the same in all places.

C. The Problem of the Different Forms That the Separation of Party and Government Should Take at All Levels

Looking at the experiences at these experimental points, we see that at the localities there should be different forms at all levels in the separation of party and government. At the level of city (prefectural city) committee, the level of administration is fairly high, and many problems concerning the direction and the principle for development of the prefecture need to be solved. At the level of county party committee, the people there think that there are comparatively few problems of a directional nature, and for their solution there are the principles and policies set by the central authorities and the province. More of the problems are those of implementing and enforcing these principles and policies in line with the situation in a given county. The county party committee and the county government constitute a committee of the party and an entity of state power at a fairly low level. Unlike the work of leadership organizations at higher levels, their work consists of both making policy decisions and being responsible for the implementation of these decisions. Therefore, when a specific separation is made, it is difficult to make as clear as the prefectural city does the line between making policy decisions and implementing them. In addition, similarly when the party and the government are separated at the county level, in different counties there will be different forms because of the different situations in the counties. Dealing with particular natures is also a problem that requires consideration.

A related problem is that of separating party and government at the level of township and town. The 13th CPC Congress report stressed that this problem must be solved after the party-government relationship at the county level is smoothed out. In Gansu, the comrades of the Yuzhong County CPC Committee consider the township-town level to be the lowest level of political power. Implementation in the villages of the principles and policies of the party and the state depends on the township-town level. The village level is that of the masses' self-ruled organization and not that of an organization of political power. Much of the party's work in the rural areas still must go to the village party branch by way of the party system in the township party committee. In addition, there is no standing committee of the

people's congress at the township level. After the people's congress adjourns, some major issues concerning the entire township need to be decided by the party committee. Therefore, they suggest that, at the township-town level, the party committee still have the function of "governmental leadership." Comrades in Wuwei and Yuzhong hope that the functions of the township and town party committees will not be equated with those of enterprise party committees, as they cannot just play a supervisory role.

At the prefectural level, the separation of party and government has not yet entered the stage of practice. The comrades in Gansu and Hebei say that, legally speaking, the prefectural administrative office is not an organ of state power but rather an agency of the provincial government. Likewise, the prefectural party committee is not an agency of the provincial party committee, and also is not a leadership organization elected by a congress. Therefore, in this sense, they say, the prefectural level is "empty." However, from a look at the actual situation, at the prefectural level, with the exception of the organs of the NPC and the CPPCC, there is still an organ charged with responsibilities. It is not of a different nature than the prefectural city, and in reality it exercises the functions of a party committee and an organ of political power. In this sense, the prefectural level is also "full" and is an entity. Thus, in separating party and government, we must first of all resolve the contradiction between "full" and "empty."

D. The Problem of Getting Matched Sets of Reforms From Top to Bottom

The comrades at the several experimental-point cities and counties in the three provinces say that in other aspects the separation of party and government and the reform of the political system are the same, and require that actions be taken together at the top and the bottom and at the two sides. If experimental points are set up in only one city and one county and not at the next higher levels of prefecture and province, or not at the cities and counties on the two sides, many contradictions will be encountered.

The comrades in Yuzhong County say that since they began setting up experimental points in July 1986 they have encountered problems in two aspects. One aspect is that, in accordance with the demand for separation of party and government, they abolished some functional departments in the county party committee. However, the relevant departments at the higher level that match the county system have not yet been abolished, and for the higher level's assigned work there still must be found a matching department in the county party committee. The other aspect is that, in accordance with the demand for the separation of party and government, they no longer set up the posts of secretary and standing committee member who do not work in the government but who are in charge of government work. After a meeting the secretary in charge, in line with the original work

needs, must convene a meeting of the relevant government departments to get the work done. Thus, while separating party and government, they must work as if party and government were not separated.

Other experimental-point cities and counties have encountered similar problems. Therefore, the comrades in them all report that, after the separation of party and government, it is necessary for each city and county to take the initiative in probing into these matters. However, in setting up the new system there must also be actions taken together at the top and bottom and at the two sides. Some comrades say: "If action is taken at the bottom but not at the top, then the more change there is the more passive the situation will become" and "if the top and the bottom and the two sides take action together, the separation of party and government will be successful." This is certainly true.

Reevaluation of Reform Movement of 1898

40050148 Beijing XIN GUANCHA [NEW OBSERVER]
in Chinese No 22, 25 Nov 88 pp 2-3

[Article by Li Honglin 2621 3163 2651: "Looking at the Reform Movement of 1898 Ninety Years Afterward"]

[Text] Ninety years ago (1898 by the lunar calendar) during the Mid-Autumn Festival, at the entrance to a food market in Beijing six gentlemen, including Tan Sitong, were killed.

Their killing signaled the end of the Reform Movement of 1898, a reform that was an opportunity for a national rejuvenation of modern China. Unfortunately, this gleam of hope was, in the end, smothered.

A reform could be smothered, but the social contradictions in China would still remain. In feudal China, under the oppression and exploitation of imperialism, people already could not stand to live as they had before and their rulers also could not rule as they had before. When contradictions are resolved things change. For Chinese society, which had already gone down a blind alley, reform was one way out. With this way out blocked, only violent revolution remained.

Looking at this political reform 90 years later, what the historian Li Peng [7812 3403] said made a lot of sense. The reform really does need to be restudied. In the past it was evaluated too low. Looking back at the past over 100 years of Chinese history, it should be acknowledged that the gentlemen behind the Reform Movement of 1898, including Kang Youwei and Liang Qichao, were pioneers standing in the front rank of their times. They were the heroes of the Chinese nation at that time. In ideas they strode in the front rank of the people of that generation; in actions they did the same. Kang Youwei boldly aroused 300 successful candidates in the civil service examination at the provincial level to sign a petition. This was a disturbance created by scholars, and it required an extraordinary courage and insight. When

the reform failed Tan Sitong refused to flee. Calmly facing his execution, he displayed the spirit of looking upon death as going home. Of course the thinking of these gentlemen could not avoid the limitation of their times. This limitation should be analyzed as otherwise there will be no progress in history. However, at all times and in all countries, who has been able to break free from the limitation of the times? Even Marxists cannot, so how could others? As for the reform after that of Kang Youwei's and Liang Qichao's, particularly Kang Youwei's restoration after the Revolution of 1911, naturally it should be negated. However, the position of the Reform Movement of 1898 in China's history, as well as that of its initiators, should be affirmed. Actually, the character and the scholarship of these thinkers of 90 years ago, compared to those "scholars" of later years who were used to trimming their sails to the wind and who were expert in the "higher criticism," were much more noble and wise.

Today a rethinking of the Reform Movement of 1898 may be discussed from many aspects. I want to make the following points.

First, a reform fundamentally touches upon the traditional system and practical interests, so it is bound to touch off a fierce ideological struggle.

To achieve a reform its ideas must strike root in the people's minds. The reformers understood this principle. Kang Youwei on the one hand constantly wrote books, tried to get the trust of the authorities, and effected reform from top to bottom; on the other hand, he set up many kinds of propaganda centers and appealed to public opinion. Besides writing special works on the subject, they started up newspapers and magazines at various places and organized various kinds of learned societies in order to swiftly spread the ideas of constitutional reform and modernization.

The people who opposed political reform also understood this principle. They knew the power of new ideas and looked upon them as great scourges. From all sides they surrounded, pursued, and blocked them. Later Zhang Zhidong wrote "Advice on Learning" as an ideological weapon to resist the ideas of the reformers. This work was divided into an inner part and an outer part. The "inner part was to correct the popular feeling and the outer part was to open up the atmosphere," that is, "Chinese learning for substance and Western learning for use." "Correcting the popular feeling" was extremely important. If the people, as they had before under the sway of feudal ideas, did not dare to act rashly then the order of feudal rule would not collapse. This was why Dowager Empress Ci Xi highly appreciated this book. She made it an official doctrine and ordered that "it be published and distributed widely and that people be strongly advised to heed it."

However, to make "study materials" available by administrative order would mean increasing the number of printings of a book. If at that time there had been remuneration and royalties for authors, this author would have obtained a generous income. This method of occupying an ideological position, however, was not efficacious, because in a trial of strength between theories victory is won by reliance on the truth and not on the number of printings of a book and the recommendation of officials. Precisely the opposite is the case. A recommendation by officials is often more of a hindrance than a help, and the more something is recommended the more one's appetite for it is spoiled.

As a matter of fact, the conservatives understood this principle. They knew that they could not win the battle of theories so they relied on calumny and force. They demanded that Kang Youwei's books be burned. They attacked his "Chinese and Western Annals" as "advocating Western learning and forsaking Confucianism." They attacked the strong learned society organized by Mr Kang as "a clique set up for his own selfish interests." Those who "forsake Confucianism," they said, are like "ministers or generals who rebel against their monarchs or collaborate with the enemy." "One who sets up a clique for his own selfish interests" wants to form a political force. This was an important matter that endangered the ruler's throne, so there certainly could be no question of being soft in dealing with it. Therefore, newspapers were shut down and learned societies banned. However, at that time the diehards did not have much experience in muzzling the public opinion front. They had the skills for conducting a large-scale literary inquisition, but did not know very much about how they should suppress and control the newly arisen newspapers and magazines. At that time there truly was a little bit of the situation in which "when it is dark in the east, it is light in the west; when things are dark in the south, there is still light in the north." When the newspapers and periodicals of the reformers were banned in Beijing, the reformers moved to the south and set them up there. For a time they were published at various places in succession. Although vexed the diehards were for a time utterly helpless.

Second, the sharpest struggle was over political issues. Liang Qichao outspokenly denounced the emperors of past dynasties as "public enemies." He said that "the source of China's growing weakness is the fact that the monarchical power is increasing day by day while civil rights are decreasing day by day." Citing the democratic ideas of the West, Yan Fu propagated the idea that the people are "the true rulers of China" and that the princes, nobles, generals, and ministers—the ruling class—are merely "servants." Also, "when people first came upon this earth there were no monarchs or ministers, just people." People cannot rule each other and also have no leisure time to rule. Therefore, one citizen is raised to the status of a ruler. This pulled the "True Dragon Emperor" from heaven down to earth. Also, this "ruler" can "both be chosen by the public and dismissed by the public." Looking at this radical idea today, one

would even feel it to be a pointed and outstanding one. However, the reformers of those times, although advocating democracy and criticizing imperial authority, limited their criticism to monarchical power and did not want to abolish the imperial system. All that they demanded was the establishment of constitutionalism, the extension of civil rights, and the limitation of monarchical power. The conservatives deeply understood, however, that once the political stand of the reformers was put in place the political power of the feudal rulers could not be retained. On this crucial issue they absolutely could not tolerate any differing political view. Zhang Zhidong gave a completely unambiguous warning: "If the civil rights they are talking about are put in place, the people, who were happy in their ignorance, would riot, institutions would not work, and great disorder would arise from all directions." Therefore, he firmly maintained: "Democracy absolutely cannot be established and civil rights absolutely cannot be given weight." In brief, since on political issues there was no room for compromise, the outcome was not determined by who was right but rather by the balance of forces of the two sides.

Third, the centers of the two power factions existed side by side, but the center of the conservatives was stronger than that of the reformers. This was the key to the failure of the Reform Movement of 1898. At all times and in all countries, no matter what the state system or the political system, there can only be one center of power. If there are two centers this can only be a transitional state, or a transition to this side or that side. The two centers will not coexist for a protracted period of time. If the situation in which the two centers exist side by side is a case of the new replacing the old, the shorter the transition time the better: if the time is lengthened the result will only be to increase the suffering and intranquility of society. Emperor Guang Xu had already taken over the reins of government upon coming of age, and Empress Dowager Ci Xi had already gone behind the political stage. But her doing so did not mean that she had completely handed over power. On the contrary, she organized backstage another power center and continued to play her role. When Guang Xu decided to rely on the reformers to effect political reform, the contradiction between the reformers and the conservatives intensified. At that time the conservative forces in Chinese society were very powerful, and the extensive bureaucratic stratum would not resign itself to losing its vested interests. It is not at all surprising that it would do its utmost to resist reform. The question was: what, in the final analysis, was the degree of concentration of the two political forces and the balance of strength between the two sides? If the conservatives had no center and were not concentrated in one camp, it would be possible for the reformers who had grasped power at the center to control the overall situation. However, with Dowager Empress Ci Xi, who had not really withdrawn from the political stage, and her political clique at the center, things were very complex.

The innate weakness of the reformers was that they lacked a base in the masses, and they were also far from being able to organize backbone forces from the center to the localities. Although they did all the propaganda work

in their power, to China, which had been in the same old groove for several thousand years, their voices, in the final analysis, were too weak and were far from having the effect of mobilizing and enlisting the masses. Thus Emperor Guang Xu, with the pitifully small power center that he and the several reformers had formed, when faced with the powerful center formed by Dowager Empress Ci Xi and the conservative forces she controlled all over China, was like "a small sorcerer in the presence of a great one"—he paled into insignificance by comparison. In this situation the reformers had only two paths they could take: either surrender, abandon the reform, and try to achieve a compromise; or risk danger in desperation, stage a palace coup, eliminate Dowager Empress Ci Xi's power center, and end the situation in which the two centers existed side by side. The reformers, with Guang Xu at the center, decided to take the latter path. But Ci Xi was more formidable than they were. Controlling the armed forces, she gained the initiative by striking first. She had already made good preparations for dealing with a coup. She swiftly crushed the coup that Guang Xu had initiated and that Yuan Shikai had already betrayed. As a result, the "Hundred Days Reform" was wiped out at one stroke.

Fourth, the Reform Movement of 1898 was a reform. The traditional view is that a reform is an improvement, that an improvement is a quantitative change in every little bit, and that a reform does not affect the quality of society. Actually, a revolution is fine and a reform is fine. Both are a means. When a contradiction in society reaches a certain point, it must be resolved sooner or later. As for by what ways and means it is resolved, we must look at all the circumstances at the time, and it might not necessarily be resolved in line with people's aspirations. The substance of the Reform Movement of 1898 was to replace feudalism with capitalism. If it had succeeded China would, under the political system of a constitutional monarchy, be gradually transformed into a capitalist society. This implies a qualitative change in Chinese society. As for the political system being a constitutional monarchy or a republic, this is not the key to the matter. The fact that many developed countries still have a king today is a case in point. In fact, the struggle of the Reform Movement of 1898 was very intense. After the failure of the reform movement, Guang Xu was imprisoned, the six gentlemen were beheaded, and Kang and Liang fled abroad, all of which shows the intensity of the struggle. There is a well-known saying: "Reformers do not make good exits." Although this saying cannot avoid the charge of being a little too categorical, it fits the reality in China fairly well. More than 2,000 years ago, Shang Yang made reforms in the State of Qin, with the result that his body was torn asunder by five carts. Wu Qi made reforms in the State of Chu, and in the end he was shot to death by arrows. Although these are extreme examples, it is truly a phenomenon of a lawlike nature that a price must be paid for a reform.

Today China is carrying out a reform. History will not be repeated. Today's reform and the Reform Movement of 1898 of 90 years ago already cannot be equated. But there are also certain points of similarity. For example,

the purpose of the Reform Movement of 1898 was to modernize China so that it would catch up with the developed countries of that time; the purpose of the current reform is to modernize China so that it will catch up with developed countries of this time. The purpose of the Reform Movement of 1898 was to save the Chinese nation from the crisis it was in at the end of the 19th century; the purpose of today's reform is to answer the stern challenges that contemporary China faces. If it is said that the Reform Movement of 1898 failed because of the power of the conservatives, then today's reform is irreversible. This is because it has the accumulated energy of many years and it has obtained the wholehearted support of the masses. Thus it is absolutely irresistible. However, since it is a reform it will inevitably touch upon the vital interests of some people. Not only can certain complications not be avoided, but also the reformers will certainly pay a price. Such being the case, the experiences and lessons of historical reforms will always be of some significance for successors. In reality the blood of the six gentlemen of the Reform Movement of 1898 was not shed in vain. Their ideas and outstanding achievements have already made a contribution to the advance of Chinese society that can never be obliterated. Worthy of our commendation of them is just one point alone: it will make our successors realize that reform is extremely difficult.

Beijing Municipal People's Government

This year is the 90th anniversary of the death of the six gentlemen of the Reform Movement of 1898. They were important figures in China's historical advance. For the sake of reforming China to make it prosperous and strong they gave their lives and they are very worthy of commemoration. For this reason, we suggest that a commemorative tablet for the six gentlemen be put up at the entrance to the food market in Beijing where they were killed.

With high respect!

[signed] Li Rui [2621 6904], Zhang Zonghou [1728 1350 0624], Li Juelin [2621 3082 2651], Li Qian [2621 8438], Chen [7115], Feilun Geyang [7236 0178 2047 2254], Zhang Wende [1728 2429 1795], Chen Xiaochuan [7115 1420 1557], Dai Qing [2071 2532]

Zheng Zhongyue [6774 0112 1471], Ma Licheng [7456 4539 6134], Chang Quzhao [1603 2575 5128], Hu Shao'an [5170 1421 1344], Hua Shuosheng [5478 2592 3932], Yu Haocheng [0060 3185 2052]

Wu Guoguang [0702 0948 0342], Ding Zhengliang [0002 2973 5328], Li Xianbin [2621 6343 2430], Feng [7458], Zhang Luguo [1728 1774 0948], Wu Jiayuan [0702 4471 4878], Li Shu [7812 3412], Hong Yu [3163 4416], Zhou Xiuxuan [6650 0208 2467], and Shao Yanxiang [6730 3601 4382]

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NATIONAL AFFAIRS, POLICY

Three Types of Chronic Inflation, Threat to Price Reform Analyzed

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No 10, 20 Oct pp 2-5

[Article by Dai Yuanchen 2071 0954 2525: "Chronic Inflation Poses Greatest Threat to Price Reform"]

[Text]

I

Many comrades have pointed out rightly that the current inflation has complicated the task of price reform. Our way out is to firmly maintain a suitable rate of economic growth, control the scale of investment, check the tendency to overheat the economy, and keep a tight lid on the money supply in order to create a favorable environment for price reform. While all this is easier said than done—it is difficult to do it just right—we have after all become quite experienced in many areas of economic adjustment. Moreover, the problem has now attracted the attention of all quarters. It is possible to control inflation in the midst of price reform.

The critical issue today is that chronic inflation has not been seriously dealt with thus far. In my opinion, chronic inflation may well get out of control to become the greatest threat to price reform because of its chronicity. In Yugoslavia, single-digit inflation has escalated into double-digit inflation in recent years, reaching 140 percent in 1987. In Brazil, inflation has been increasing year after year, hitting 600 percent in 1987. Double-digit inflation is also a reality in many developing countries. All this is happening because of chronic inflation, characterized by a combination of an inflation driven by a bloated money supply and an inflation fueled by rising costs as prices and wages go up in succession, both recurring over a long period of time. When chronic inflation is already in existence, any effort to tighten the money supply and hold the line on social demand will succeed only in checking the demand-led inflation, while costs-driven inflation will continue to rage. The upshot is stagflation: falling social demand and declining economic growth accompanied by rising prices. To work itself out of stagflation, the government may stimulate demand, which may rekindle chronic inflation. Thus it is much more difficult to control chronic inflation than the ordinary demand-led inflation.

II

That prices have been increasing steadily in recent years shows that inflation has become chronic. Conventional wisdom holds that successive wage and price increases are the only cause of chronic inflation. But an analysis of

the actual conditions in this country suggests that objectively there are three kinds of chronic inflation: one induced by structural change, wage-driven chronic inflation, and exchange rate-driven chronic inflation. They are explained as follows:

A. Chronic inflation induced by structural change. We usually think that changes in the price structure will not lead to price increases and that we can adjust commodity price ratios while keeping the general price level essentially stable. In economics, this is known as the principle that changes in relative commodity prices will not affect absolute commodity prices. In China, however, agricultural products, mineral products, and transportation have been underpriced and need to be adjusted upward. Increases in these basic prices have extensive chain reactions, often pushing up the general price level. In the course of structural price reform, moreover, we often have difficulty lowering the prices of overpriced products even as we adjust the prices of underpriced products. They may be a major source of accumulation for the central treasury or the interests of various parties may be affected if we try to change them. In 1982, for instance, we raised the price of pure cotton while lowering that of chemical fiber, with one adjustment basically offsetting the other. Today it is impossible to repeat such a feat. At a time when it is much easier to raise prices than lower them, any move to straighten out the distorted price system will inevitably push up the general price level.

If revamping the price structure is a one-shot affair, then the resultant price increases will only be a one-time phenomenon, not a chronic event. The problem is that since overhauling the price structure in one fell swoop may prove too traumatic, we have to break it up into several moves. Judging from the experience of the past decade, the process has been too fragmented and too incremental. Prices were adjusted one sector after another, one industry after another. Moreover, we often went too far in stimulating the adjusted products. After grain prices were adjusted, we discovered they had become out of sync with cotton prices, so we raised cotton prices only to find that silkworm cocoon had become underpriced. After one round of adjustments, prices have indeed gone up, but price ratios remained inequitable, with grain prices still at the bottom of the heap. After raising the prices of agricultural products, we turned around and increased the prices of capital goods in agriculture, thus again widening the industry-agriculture price differentials, which had been reduced earlier. A likely consequence of this is chronic price increases induced by changes in the price structure, possibly a return to the old price ratios.

After Beijing increased the prices of four major categories of non-staple food—meat, egg, sugar, and popular vegetables—in mid-May this year, the Second Commerce Bureau raised the prices of 3,800 kinds of food, 90 percent of all food products in its jurisdiction. This shows that it has now become very difficult to demand

that enterprises absorb the rising costs internally and that we tend to stress the advantages of incremental price increase without fully appreciating the structural successive price increases that may result from fragmenting the reform process excessively.

B. Wage-driven chronic inflation. In the past, wage levels and standards were strictly controlled by the state, so conditions for successive wage and price increases did not exist. Hence the traditional non-recognition of wage-driven inflation by China's economic theoretical community. Yet if we look at what is happening in developing nations and certain socialist countries, wage-driven price increases are indeed a primary manifestation of chronic inflation. Today in China there are two notable phenomena. Within the area where the government sets wage levels and wage standards, price increases have eroded real living standards. Here reasonable compensation has become an issue in price reform that must be tackled. As for those wages, bonuses, welfare, and miscellaneous wage-incomes outside the scope of government control, they have been soaring. It is commonplace to increase profits and raise wages by hiking prices. Wage-driven chronic inflation has emerged in Chinese economic life.

As far as the relations between prices and wages are concerned, therefore, we must consider offering reasonable compensation in times of rising prices and take care to prevent wage-driven chronic inflation. The floor of the wage level is that the nominal wage increase rate should not exceed the price increase rate in order to ensure that workers do not suffer a drop in living standards. The ceiling is that the actual wage increase rate should not exceed the growth in labor productivity. Once wages go up faster than productivity, wage increases will not be backed by any real gain in output, resulting in chronic successive wage-and-price spirals.

In price reform, the key to minimizing risks and improving public tolerance is rising profitability. It certainly makes sense to ask enterprises to absorb the increase in costs resulting from more expensive raw materials. In real life, however, enterprises are not willing to do so at all and look for every opportunity to pass them onto others. They may even use rising costs as a pretext to jack up prices. They have a built-in incentive to do so: absorption hurts the interests of enterprises and workers, whereas raising prices works to the benefit of both. This is exactly the essence of wage-driven chronic inflation. An important cause of price increases in recent years is the fact that average wages have been rising faster than the increase in productivity for successive years now. Traditional constraints on wages remain effective only within a limited scope. Outside this scope, administrative restraints have been dismantled. Meanwhile, new restraints have not yet taken shape. If we overlook establishing restraining mechanisms on wages in the course of price reform, wages can well become the main driving force behind chronic price increases.

Note that after the contract management responsibility system was introduced, enterprises over-fulfilled their contracts and hence retain more profits and issue more bonuses by raising prices. After localities adopted financial contracting, they too over-fulfilled their contracts and, by raising the prices of local products, increased local revenues, which is welcomed by the local authorities. Contracting intensifies the profit motive, which is in line with public wishes to make more money and improve their living standards. Although it has had a positive effect, contracting has also made all interest groups that much more conscious of their own interests. It is precisely through enterprise contracting and local contracting that wage-driven chronic inflation is effected.

C. Exchange rate-driven chronic inflation. In a closed self-circulating economy, chronic inflation is limited to the two types mentioned above. But for an open economy with increasing economic contacts with the outside world, this is not the case. Apart from the possibility that international inflation may be transmitted into the country, exchange rates and prices may go up in turns, accelerating and recurring over time. Since foreign exchange shortage will be with us for a long time to come, with every enterprise doing all it can to export and earn foreign exchange, it will be difficult to avoid the stampede at the ports in which enterprises try to outbid each other by raising prices. This complicates our effort to stabilize internal trade on the one hand, and will endlessly boost the cost of earning foreign exchange, on the other. Witness the rabbit fur war and leather war of the past and the more recent silkworm cocoon war. With the cost of earning foreign exchange ever rising, foreign trade losses pile up, forcing the government to adjust the exchange rate. But adjusting the exchange rate will only sharpen the competition among export enterprises when they procure on the domestic market, thus setting off another round of price increases and another jump in the cost of earning foreign exchange. In recent years, the exchange rate has decreased from \$1:1.15 yuan to \$1:3.72 yuan. In fact, the yuan has been devalued by a greater percentage than the rate at which prices have risen on the domestic market. Moreover, both the cost of earning foreign exchange and the black market exchange rate are much higher. Thus chronic inflation caused by successive changes in the exchange rate and prices has appeared in China.

III

We have analyzed above the three types of chronic inflation and shown that all three have appeared in China. Thus what our current price reform must tackle is not just ordinary inflation, but chronic inflation.

Having determined that chronic inflation is the major danger and problem ahead, how should we proceed with price reform?

A. Price reform should press ahead in the face of difficulties. Although we are faced with the danger of chronic inflation, price reform including price rationalization and market deregulation has to do only with one of the three factors that lead to chronicity, namely structural price changes. Even if there were no price reform, the other two factors will remain, prices on the deregulated market may still experience structural successive increases, and the danger of chronic inflation still exists. Moreover, this kind of chronic inflation will take place side by side with distorted prices, which will be even more damaging and destructive to the effort to improve profitability.

Thus to identify chronic inflation as the main hazard ahead is not to suggest that we stop or go slow on price reform. Rather, our aim is to draw attention to the difficulties of price reform and pinpoint its main danger, a point mostly ignored in current discussions and plans on price reform. Yet if we overlook it, we may underestimate the difficulties, fail to take targeted effective measures, and beat a hasty retreat as soon as problems occur. On the other hand, if we realize that chronic inflation is our worst enemy, that knowledge may help us tackle it in earnest, press ahead despite difficulties and overcome them, and succeed in price reform.

B. The step-by-step method of price reform should try to avoid successive price increases for the various products as much as possible. As explained above, when structural price adjustment is over-fragmented, the result could well be chronic successive price increases. Consequently, even though it is unrealistic to expect to complete price reform in one bold stroke, we should take bigger steps after calculating carefully that they are within the public's tolerance threshold. The sequence or order in which reform measures are introduced is also very important. Because there are both pros and cons to adjusting the prices of capital goods ahead of agricultural products, and vice versa, we must weigh them to see which contributes to overall stability and development and make a choice accordingly.

The current projections of adjustment-related price increases have been worked out on the assumption that there would be only one round of chain reactions resulting from price adjustments. When price reform is broken up into a series of steps, successive price increases will be virtually unavoidable. Thus we should be mentally prepared for price increases that exceed our projections and take precautionary measures.

C. Tackle wage-driven chronic inflation in earnest. As noted before, the chief danger and difficulty now and in the days ahead will be the chronicity of successive wage and price increases. Accordingly it is vital that price reform and wage reform be coordinated organically. The problem here is not paying workers higher wages to offset higher prices. The problem is checking the tendency to jack up prices as a result of rising wages. Since this problem does not occur within the limits of government control but

in areas that have adopted contracting and similar practices, it is no longer possible to control the growth of incomes of a wage nature such as bonuses with administrative methods. Instead, the emphasis should be on coordinated reform to create self-restraining mechanisms.

D. We should also take pains to prevent the exchange rate and prices from increasing successively in the course of price reform, but this cannot be achieved through administrative means. Instead, we should find a mechanism that can check successive price increases in the foreign trade system, which pushes up the cost of earning foreign exchange steadily. This issue should be organically related to the coastal development strategy of the central government. The push for an export-oriented economy should be combined with an effort to reform the foreign trade system and reverse the tendency to export and earn foreign exchange at any cost.

E. The purpose of price reform is to introduce the market mechanism into the economy. Right now, however, what controls the market is not the ordinary independent enterprise, but monopolistic enterprises. Both the scramble by enterprises to procure agricultural products by outbidding one another and the widening gap between the two sets of prices for industrial capital goods are related to enterprise monopoly. Thus preventing price formation from turning from a state monopoly into an enterprise monopoly is critical to checking successive price hikes. Price reform is not simply a question of price decontrol; also involved is the issue of management after decontrol. Anti-monopoly will be an important part of such management.

Chronic inflation may continue to occur after price reform is completed, so we must not only tackle it seriously during economic reform but continue to keep a close eye on it when reform is over to prevent its recurrence.

One final point: In identifying chronic inflation as the chief danger, we are not suggesting that we can ignore the inflation caused by a bloated money supply, which after all is what originally drives the wheel of chronicity. To say that tightening the money supply alone is not enough does not mean that we should not tighten the money supply. It is just that this point has been much discussed, so we decide to omit it here.

Market Economy Difficulties, Suggestions
40060180 Beijing CAIMAO JINGJI [FINANCE AND
TRADE ECONOMICS] in Chinese
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[Article by the "Market System" Problem Team of the Chinese Academy of Social Science's Finance, Commerce, and Commodities Institute; drafted by Fan Hanting 2075 3352 1694 and revised and finalized by Zhao Xiaomin 6392 2400 3046 and Gu Lirang 6328 1462 6245: "Difficulties of Market-Oriented Reform, and Suggestions for Their Resolution"]

[Text] The overall course of economic system reform since 1978, regardless of its initial objectives, has been manifested as a constant conversion of economic movement toward a commodity-money relationship and mar-

ket system. Now, however, there are various indications that market-oriented reform is at least not entirely successful—even though agricultural products increase year by year, market prices have not only not fallen, they have shown a trend to rise faster; consumption inflation, investment inflation, and currency inflation have emerged simultaneously, and price reform has been caught in the hard-to-resolve cycle of “decontrol, rise, control, supplementation...decontrol, rise...”; and there is mutual aggravation between the low efficiency and high speed of economic development. In other words, reform has again been caught at a crossroads confronting a further choice: whether to continue deepening market-oriented reform, or to either maintain the present double-track system or simply revert to the traditional administrative order economic system. Our answer is to deepen reform, but it is necessary to sort out, adjust, and absorb the previous period's train of thought regarding market-oriented reform, and to squarely face and adequately understand the difficulties which market-oriented reform has run into, and will run into later. Only in this way is it possible to make the correct choice.

1. Brief Commentary and Queries on the Market Theory in the Previous Period's Reform

The conversion of economic movement to a commodity-money relationship, which was initiated by the fixing of farm output quotas for each household in rural villages, has allowed a breakthrough to be made in socialist macro market theory research. This is manifested especially in the following ways: (1) It has done away with the traditional concept in socialist economy which rejects the role of commodity money and negates the market and market mechanism, and it has established a relationship of inherent unity between plan and market; (2) it has done away with the concept of the “external” and “supplementary” role of the market mechanism, and has established the central position of the market mechanism in economic movement; (3) it has done away with the concept of a single consumer goods market, and has put forth the concept of strengthening and perfecting the market system and bringing into play the overall market function; (4) still more theoretical and practical workers have turned their view to market reform and realized that the degree of market development and the role of the market mechanism are key issues in the reform of all developing nations.

However, the market-oriented reform which we carried out in the previous period was to a very great extent not entirely successful, and the most important cause of this was the narrow, biased understanding of the market and the market mechanism in theoretical circles and practical departments, which caused the structure of the market to remain at a superficial level. The main errors were as follows:

1. Equating the market mechanism with the price mechanism and placing hopes for the formation of a socialist market solely on the decontrol of prices. Actually, for

several years we have taken this simple approach of “decontrol,” “separation of authorities,” and “yielding profits” in market-oriented reform, equating the market's level of development with its degree of decontrol, as well as to the degree of separation of authority over, or decentralization of, circulation of commodities, goods and materials, and capital. This school of thought concerning reform holds that if commodity prices are decontrolled, the market mechanism can operate normally, and can follow the classical market's law of supply and demand. However, as a result of implementation, not only have China's commodity prices not recovered their Walras equilibrium, prices have soared with the increase in volume of supply, to the extent that serious shortages of matches and toilet paper have developed, and the whole economic situation and price reform have become caught in a cycle of “decontrol, rise, control, supplementation, decontrol.”

Actually, the market mechanism, as the movement mechanism of the commodity economy, has extremely wide connotations. It is the commodity money relationship which is common in economic movement, it is the self-control device which provides cohesion and lubrication between market subjects (referring to enterprises acting as producers and operators) as well as between subjects and objects, and it is the microcycle system of the social economic mechanism. Viewed in terms of the movement state of the market mechanism, it is also the sum of the interconnections and interactions between the price mechanism, supply and demand mechanism, risk mechanism, and competition mechanism. Of these, the interactions and interconnections between the price mechanism and the supply and demand mechanism are manifested primarily as the interrelationship between market objects, while the risk mechanism and competition mechanism are manifested primarily as the interrelationship between market subjects. In other words, the price mechanism and supply and demand mechanism are interrelated mechanisms which are formed by various visible and invisible commodities in the process of market actualization. The price mechanism is a surface-level reaction of the movement state of market objects; its function mechanism must also be conditioned by many deep-level market factors. Risk and competition refer to the risk profit and loss and the market relations between opponents which must be undergone by market subjects in the course of engaging in market activities. They are the deep-level mechanism of the market's movement state; the market subjects' riskprofit and loss situation and forms of competition directly determine the movement state of price. Therefore, the complete state of a market should be one in which all of the market subjects and objects have a place. Only in this way will the market signals not be distorted. Especially in a non-classical market, price competition has retreated to a secondary position, while non-price competition has risen to become the leading form, and the movement of the market mechanism reflects even more risk restraint and competition restraint.

It is thus clear that if the market mechanism is simply equated with the price mechanism, it actually overlooks risk and competition restraint on market subjects and ignores the place and role of market subjects in market movement. We know that in a market which lacks positive activity by market subjects, market objects are unlikely to achieve an optimized disposition on their own. If market subjects lack the restraint of market risk and competition, the movement mechanism of market objects inevitably fails to work properly. The functioning process of the market mechanism is a mutually unified, coordinated dynamic equilibrium between market subjects and objects, and a favorable market climate cannot be created merely by placing hopes on one side.

2. Equating the market with the market system and, further, equating the market system with the sum of the commodity market and the factor market, as if a favorable, highly efficient, unified socialist market would automatically be formed if only these markets were strengthened and perfected.

Although strengthening and perfecting the market system is an important link in creating the market climate and carrying out market-oriented reform, it is far from being the whole of the market issue. There is a distinction between the narrow and broad sense of the concept of market. Market in the narrow sense is the sum of exchange relations, while market in the broad sense is the unification of the conversion of production, distribution, and consumption to market principles. That is to say, market in the broad sense includes the conversion to market principles of both production relations and the process of developing productive strength and social resource disposition, and is the core of all social economic activities. At the same time, the market system, as the "hardware" system of the market movement pattern, includes not only a market object system formed by the interdependency of various commodity markets and factor markets; still more important is the existence of a market subject system made up of various market economy organizations and regulation and control organizations. The object system is an extension of the subject system contradiction, and the behavior pattern of the subject system controls the direction of flow of objects. Only after the strengthening and coordination of the market's subject and object systems can the market mechanism operate normally. According to the currently popular argument concerning the market system, the market mechanism can automatically form if only the object system is strengthened and perfected, and so the process of remolding and cultivating market subjects can be easily bypassed. Practice has yielded the same result as our theoretical analysis: if, in reform, only the market object system is developed and the subject system lacks a position (including movement subjects and regulation and control subjects), economic operation can only go around in circles around the outside of the market, and the new economic movement mechanism of "the state regulates the market and the market guides enterprise" cannot be established.

II. An Analysis of Some Difficulties in Perfecting the Market

A perfected or sound market must always be premised on normal operation of the market mechanism, and introducing the market mechanism into an economic organism requires first creating conditions under which it can play its role. These conditions are primarily the general conversion of social economy to commodity money and systematic restraint, using laws and regulations as market standards. As to the reason that the market mechanism has not been successfully introduced into China, aside from the excessive superficiality of our thinking in the previous period with regard to reform, the most important series of difficulties has to do with the lack of basic conditions for the functioning of the market mechanism. These difficulties include the following:

A. Mutual opposition between the consciousness of equality and the market mechanism. Introduction of the market mechanism inevitably requires making the commodity-money relationship common throughout society, doing away with "interference from outside the market," "allocation outside the market," "exchange outside the market," and actively bringing into play the market mechanism's role of self-regulation. Thus, it requires the members of society, in the formation of property and income disparity, to use the market-oriented disparity mechanism to implement regulation, rather than making economic disparity administrative. The market mechanism is a mechanism of equal competition which gives first priority to efficiency; it is also an income disparity mechanism. Its functional process is equality of opportunity and inequality of results. However, our traditional objective favors achieving equality of rights and benefits in the final results, and under conditions in which the role of the market mechanism is lacking, only certain groups and organizations are entrusted with using the highest authority to maintain these "fair" objectives. This has formed an economic system characterized by the government standard. Therefore, introduction of the market mechanism first inevitably runs into fierce resistance from this government standard system, which is formed based on the consciousness of equality and prevents the spreading and deepening of commodity money relations. Although the market mechanism has begun to play a role in certain areas in particular, the administration-oriented system produced by the consciousness of equality, which controls economic movement, inevitably creates a non-market-oriented hierarchy. This is manifested specifically in the following ways:

(1) Inequality of market opportunities causes actual inequality of property ownership. Ownership by the whole people is actually merely ownership by people with the qualifications and opportunities for enter into this scope, and those who have not entered are not included among "owners," and are actually excluded.

They not only cannot enjoy the labor right which integrates the labor force with capital goods; still less can they enjoy the benefits brought by "whole people's" assets. Because of the internal system of "eating from the same big pot," even if the scope of whole people ownership is small, those entering get no sense of their own rights, interests, and responsibilities, and it is often position and vested interests that people are concerned about.

(2) Supplementing the economy becomes indispensable. Converting economic movement to an administrative basis leads to converting profit distribution to an administrative basis, and in order to make each side equal, it is necessary to take from the fat to supplement the lean. Not only among regions, but especially among enterprises, because of the softening of budget restrictions and paternalistic solicitude, even profits and losses due to poor operation must be mitigated or supplemented, using even administrative coalitions and annexation to achieve the goal of taking from the fat to supplement the lean.

(3) Since there is a fierce conflict between the consciousness of equality and the market mechanism, not only does economic movement still rely primarily on administrative authority for regulation, the influence on economic movement of such unhealthy tendencies as the use of interpersonal connections and the offering and accepting of bribes is constantly increasing. Moreover, certain reform measures which we are currently implementing have also provided conditions favorable to the emergence of this abnormal mechanism. Such measures as controlling one group of capital goods prices while decontrolling another group and having both parity and market prices for enterprise raw materials supplies have actually allowed special privileges of engaging in price-fixing, and price-fixing based on privilege has become the most commonly seen form of market exchange in economic movement. If, for example, the par rate of one ton of steel is 700 yuan and the market price is 1400 yuan, it is the same as saying that special ownership rights for one ton of steel are worth 700 yuan.

B. The undeveloped state of market economy organizations. If one wants to form a classical market, it is sufficient that there be a general commodity-money relationship and perfected commercial regulations. However, in forming a market in the modern sense of the word, the cost of obtaining market transaction information, or transaction costs, is a problem which must be resolved. Therefore, in the modern competitive market, the enterprises which participate in market competition are not single-celled enterprises with an elaborately detailed social division of labor, nor are they the highest administrative organizations; rather, they are giant enterprises, enterprise groups, and corporations with multiple functions. We know that under market conditions of free competition, a fairly large number of small-scale, single-function enterprises are active in each industry and are passively regulated by market price

signals. Although this type of economic organizational structure has the microefficiency of cost optimization and strong adaptability to supply and demand, it is in conflict with the essence of modern productive strength. The essence of modern productive strength is high technology and a high level of coordination. In order to reduce the huge transaction costs brought about by the independent implementation of market transactions by a large number of small enterprises, competition between giant corporations has been produced, causing a switch from numerous market transactions to internal corporate accounting. Therefore, only by replacing competition among single-celled enterprises with competition among giant corporations can the market be more stable and economical.

From the above analysis, it is easy to see that in order to form a modern market, it is necessary to have an adequate scale of organizational resources, and to reduce market transaction costs to a level below that of the costs needed for the economic movement of other organizations. However, what is disturbing is that China's organizational resources are extremely singular, and a bipolar distribution has emerged: one pole consists of administrative organizations with a high degree of centralized authority, while the other pole consists of extremely decentralized family and clan organizations. The two have never developed intermediate organizations. Therefore, in our reform of introducing the market mechanism, the rapidly developing organizational forms are individual economy and township enterprises, as well as the unmovable centralized administrative organizations, while the economic organizations required for a modern market are slow in developing. Just as we have become accustomed to seeing, competition among excessively small economic organizations has caused market transaction costs to soar, and as commodities have become more numerous, prices have also risen; the resource disposition efficiency stimulated by the market mechanism has been virtually canceled out by the increased transaction costs. Another aspect is that, in China's market, the scale of the development of economic organizations is often restricted by numerous factors, particularly in the case of those enterprises which begin to change into administration-oriented organizations before they have achieved economies of scale, and become centralized organizations. The nondeveloping nature of China's market organizations has a historically accumulated effect. Compared with the nations of Europe, whose modern commodity economies are developed, China's small commodity economy in the Han and Tang Periods was highly developed. Throughout the Song, Ming, and Qing Periods, the small commodity economy was quite prosperous, but since the centralized administrative organizations and extremely decentralized family and clan organizations internally inhibited the development of market organizations, China's economy never produced an organizational structure mutually suited to a developed commodity economy, and the movement of the market ultimately could not shake off the yoke of centralized administrative

organizations. When feudal dynasties of past ages were faced with collapse in their late periods, some small organizations took advantage of the opportunity offered by the weakening of the bonds of centralized administrative organizations to develop into relatively large-scale market organizations, and from this emerged the phenomenon of unhealthy commercial prosperity. However, before long, new dynasties were established, centralization reappeared in society, and larger economic organizations were either eradicated or absorbed by administrative organizations, and this is why the development of a commodity economy remained at the stage of small commodity economy. The situation of China's economic organizations at the present stage is very similar to other periods in history. At one extreme, there are too many state administrative organizations, and at the other extreme, there are a large number of individual and collective economies, while there are very few real companies. This cannot help but keep China's commodity economy at the small commodity economy stage.

The nondeveloping nature of China's market organizations is also manifested as the lack of development of regular organizations and the overdevelopment of irregular organizations. Introduction of the market mechanism requires that market organizations become independent commodity producers and operators, and that they be corporate entities which closely combine rights and responsibilities. However, China's market organizations are often not regular organizations established through legal procedures, and still more are irregular market organizations which rely on various interpersonal connections in joining together. The overdevelopment of these irregular organizations inhibits the development of regular organizations, and in economic movement, the role of interpersonal connections often overshadows that of market mechanism or administrative mechanism. Therefore, the disposition of social resources is to a great extent carried out according to interpersonal connections, and this kind of distribution, in turn, strengthens the position and rights of vested interests, so that the market mechanism can only play its role in a distorted way. In China, even though those are viewed as enterprises of regular organizations, they actually cannot organize production and operation according to market principle, and therefore these market organizations are completely surrounded by irregular organizations, and the members which constitute them are often also members of other irregular organizations. This causes the activities of these organizations to develop, not toward the market, but more toward interpersonal connections.

C. The unsoundness and lack of unity of market regulations. The most important factor for introducing a market mechanism and establishing a market economy system, aside from a widespread commodity-money relationship, is to establish, based on laws and regulations, unified market rules mutually suited to a market economy, standardizing and converting to market principles the behavior of market organizations. However,

since our market-oriented reform is implemented under conditions in which laws and regulations are unsound, imperfect, and above all poorly enforced, there is a lack of systematic restraint in the movement of the market mechanism. As a result, China's current economy presents an appearance of confused prosperity. Everyone is seeking to gain more individual benefits and benefits for their own units from reform, putting the social risk system into a very weakened state. In this way, groups or individuals can use their own powers of office to be generous at the state's expense, lining their own pockets and engaging in various "reforms" for which they bear the profits but not the losses.

The unsoundness of market regulations also makes market organizations unable to take off from the same starting point, and the market cannot accurately appraise the functions of market organizations. The lack of unification of market regulations has caused confusion in market organization behavior, and the handling of different cases in different ways with respect to policy (such as complete entry into the market but incomplete entry into the market's enterprises) has caused a constant increase in "collision" accidents in economic movement, and economic returns are almost completely depleted through mutual friction.

D. The "vacuum" zone formed by the lack of synchronicity in the development of various markets and the overall function demanded by the market mechanism. The basic prerequisite for the market mechanism to normally and effectively play its role lies in the soundness of the market's overall function, and bringing into play the overall function of the market must also be the product of the perfection and coordination of the various types of markets. However, regardless of whether the emergence, development, and growth of the market are formed artificially or occur as a kind of natural peristalsis, they cannot be achieved in a single step; all involve an objective problem of sequence. From the standpoint of China's concrete reality, with regard to the development of the various types of market, the labor market is the least mature. Not only must it achieve a breakthrough in resolving such general questions as whether labor is a commodity and whether there is a contradiction between distribution according to work and labor commodities; an even greater obstacle is posed by the fact that consciousness of equality has already penetrated into popular feeling, and the people have become accustomed to the traditional system of "everyone eating from the same big pot" and egalitarianism. However, from the standpoint of the actual demands of reform, the opening and perfecting of the labor market is most urgent. This is because unless price reform is mutually coordinated with wage system reform, it can only become a mere formality, or if only the commodity market is opened, the price mechanism in the narrow sense which is formed is incapable of proper disposition of resources, either microscopically or macroscopically. Only a price mechanism in the broad sense (including wages, interest rates, prices, and the like) is capable of

forming a unified market function and playing the role of market mechanism. How to overcome the demands and actual contradictions involved in perfecting the labor market is the factor which will determine the success or failure of price and wage reform. It has already been proven in the previous period that such reforms as price and wage adjustment, which bring the price function into play through administrative methods, are unfeasible, and that they can never straighten out the relationship between price and wages. Can reform through adjusting wages and decontrolling prices succeed? Price decontrol means that the commodity market's prices are formed through the market and also affect the market; wage adjustment means that the formation of wages is merely an administrative adjustment which is implemented using market price as a reference. When prices rise, wages must rise, and then prices rise further; however, when prices fall, wages cannot fall, since, because of administrative wage rigidity, the wage mechanism has an expansion mechanism but no contraction mechanism. As a result, consumption inflation and currency inflation inevitably occur at the same time. Therefore, the course of the history of reform demands that prices and wages be formed simultaneously in the market; only then is it possible to form a favorable market environment and break away from the "abnormal cycle" of a disordered market mechanism function.

Conclusion: Normalization and effectivization of the conditions for China's market movement depends upon resolving certain difficulties in the market's endogenous structure. The most important variables in this include the transformation of social economic objectives, the development of market economy organizations, the strengthening and unification of market regulations, and eradication of the "vacuum" caused by the unsynchronized development of various markets. If the transformation of these numerous difficulties in the market's underlying structure is abandoned, and hopes are placed on free price regulation in the narrow sense, it will be hard to achieve normal movement of the market mechanism and strengthening and perfection of the market.

III. Several Systematic Countermeasures for Deepening Reform

In confronting the underlying obstacles to reform through conversion to a market economy, the question of what countermeasures to adopt is directly connected to the choice of objectives for, and train of thought about, deepening reform. The content of deepening reform is varied, and the problems involved are both numerous and complicated. However, the basic method is to create an economic climate which will allow the market mechanism to become a mechanism produced internally by economic movement, and change the fluctuating state in which the market mechanism cannot be introduced.

First systematic countermeasure: Use the market mechanism as the basis for a new train of thought and implement a drastic switching of tracks.

At present, the intervention of the market mechanism has gradually reached the limit allowed by the "fair" system under consciousness of equality, and the old system has begun to disintegrate the market mechanism. Such phenomena as the intensification of administrative intervention, the influence of bearing capacity, the seeking of methods of transition involving the least risk, as well as complaints about the "uneven allocation of suffering and pleasure," "whipping the fast ox," and "climbing competition," produced on the basis of the contradictions of the double-track system, only require that their respective high-level administrative organizations properly adjust their vested interests and reestablish their respective positions and statuses after changes occur in the economic order.

Therefore, when deepening reform, we should first change the bias of social objectives; namely, switch from putting equality first to putting efficiency first. This requires using the market mechanism as a basis for carrying out an overall conversion of economic movement to market principles. Only by putting efficiency first can there be competition, risk, autonomous selection, and equal opportunity, and only then can there be room for the market principle to exist, and an environment in which it can function. Putting efficiency first means that under ordinary conditions, in cases in which a contradiction emerges between equality of income and economic efficiency, the bias toward equality must yield to the bias toward efficiency. In market-oriented deepening of reform, the market mechanism is implicit, and although it is not an ideal mechanism, it is, rather, an extremely realistic one, and it is also the mechanism which has done the most to improve economic efficiency up to now. In order that the market mechanism may be internalized in the economic movement, we must first abandon the goal of putting equality above all else. Under the new system, the state's economic objectives must form a pluralistic system of objectives centered on making efficiency the highest priority while giving consideration to fairness. However, it must be pointed out that not only must the efficiency objectives be achieved entirely through market movement, the method by which income equitability is taken into account, too, must differ significantly from past income equalization policies. It will no longer artificially fix various economic returns at a fixed point; rather, it will properly control them within a dynamic area. The upper limit of this area will be maintained according to the standardized, progressive income tax system; the area's lower limit will be maintained according to the standardized social welfare security system; and everything within the area will be conducted according to market principles. This change in the method of taking income equitability into account is essentially the implementation of market-oriented reform in the area of income distribution, to which people are most sensitive.

Second systematic countermeasure: Change China's market economy organizations in accordance with the requirements of the modern market.

In resolving the current lack of development in China's market organizations, attention should be focused on the upgrading of enterprise scale. Specifically:

First, transformation of the function of government organizations. Replace the present responsible administrative organizations with the heads of operational companies, or eliminate this type of responsible organization, develop industrial organizations to allow enterprises to develop toward economies of scale, and prevent market organizations from being converted to administrative interpersonal organizations. This is because giant enterprises are at the same time economic entities, and their development requires breaking through regional and time limitations.

Second, develop lateral economic integration and form group enterprises and companies. In China, developing lateral economic integration (naturally not administration-ordered combination) based on the inherent requirements of enterprise and economic development is an effective form of breaking through the original fragmented system, and it can to a certain extent avoid the government's direct administrative intervention and create conditions for enterprises' development toward group orientation.

Third is innovation of a property right system. We must upgrade market organizations, cast off the yoke of clans, and form real economies of scale, and mergers (or buy-outs) will unavoidably occur in market competition. Whether or not this merger process will be smoothly implemented will undoubtedly be conditioned by the original property right system. Exactly what type of property right system must be adopted in order to be able to ensure that mergers or integration between enterprises can be implemented without dividing enterprises into "castes" (state or collective, public or private), and in order to be able to actually sever administrative ties and restrictions between the government and enterprises? We believe that in reorganizing the property right structure of China's state-run enterprises, a more ideal choice would be to follow the route of the social shareholding system. From the viewpoint of the development process of a commodity economy, property rights are becoming increasingly vague, but this vagueness is due primarily to the fact that property use rights are becoming increasingly socialized, ownership rights are becoming increasingly decentralized, and risks are becoming increasingly borne by the whole people. The result of this vagueness of property rights is the public ownership system. One form of this is the state ownership system, while another form is the social shareholding system. Although the former system has been converted to risk-bearing by the whole people, it is by no means carried out down to each specific person, due to the overall blurring of ownership rights and operational rights, and risks are concentrated on the state, while enterprises and individuals are actually virtually risk-free. Therefore, this cannot become an important form

of ownership system under commodity economy conditions, and it is applicable only to a very small number of non-profit departments. The latter system participates in capital goods ownership in the form of shareholding by all of society's workers, and risks are shifted to each individual. This is an objective requirement of the development of a commodity economy; it is an enterprise organization system which developed in response to the socialization of production, and which tallies both with the principle of public ownership and with the principle of commodity, and it is a feasible means of achieving China's current deepening of enterprise reform. The social shareholding system differs from ordinary shareholding systems in that, whether it originates from the money paid for shares or is allotted from extra dividends, from the standpoint of risk-bearing, it must adequately reflect the role of the whole people; it is actually owned by the whole people and directly distributes earnings to them. This ownership system has changed the situation in which various levels of local government held ownership rights on enterprise assets; it has achieved degovernmentalization of economic decision-making authority over property, and authority over enterprise personnel appointments has reverted from government organizations to enterprises and enterprise groups.

Third systematic countermeasure: Implement a change in the function of price in the broad sense, particularly a change in the wage function. Price in the broad sense includes commodity prices, capital interest rates, labor wages, and the like. Under the traditional system, these are tools which revolve around equality objectives and are manifested as administrative interference; they primarily exercise the function of redistribution of national revenue, and price level is very arbitrary and rigid. Therefore, price function should revolve around efficiency objectives and use prices determined by the dynamic market to regulate the initial distribution and redistribution of national revenue. This transformation of price function is the central problem of the restructuring of the commodity economy movement mechanism, and is an important indication that the market mechanism has become an internal mechanism. As the price function changes, labor wages and enterprise profit will split apart from one another, supplier prices and consumer prices of factors will condition one another, a market-oriented dynamic connection will be established between savings and investment and between consumption expenditure and price changes, and economic movement will be put on the track of commodity economy. Thus, even higher demands are set forth for our deepening of reform; namely, how to reduce the time difference between the development of various markets in order to form a unified, coordinated price mechanism.

Specifically, until now, the formulation and implementation of an operable plan for opening the labor market has had a direct bearing on the possibility of success of the linked change of wages and prices.

Understanding, Applying Law of Value
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[Article by Chen Zhaobin 7115 5128 2430: "Creating More Material Wealth in the Form of Higher Enterprise Profits Will Ease the Strain of Price Increases"]

[Text] Price reform is a key link in economic structural reform. It is also the most important and most socially sensitive. The practical significance of price reform is to make prices operate in a way that satisfies the demand of the law of value and conforms with its regulatory function. Thus to ensure smooth progress in price reform, the most basic thing is to interpret the law of value correctly and use it to advantage.

I. To Persevere in Price Reform Is To Adhere to the Law of Value

Many people are very familiar with the law of value in economic work. Judging from the practice of price reform, however, what people know and how they act are not the same thing as far as the law of value is concerned. For instance, as soon as prices go up, price decontrol comes under a flood of complaints. Mention price control and many people think we should go back to the old method of rigid control, even price freezes. Thus while many people pay lip service to the law of value, they are actually professing love for something they fear. Why this inconsistency?

First, to put an end to the past failure to reflect value and the old supply-demand relationship, we must "adjust" and "decontrol" various commodity prices. Since most commodities were priced lower than their value in the past, which had led to commodity shortages, price adjustment inevitably causes price increases across the board. Moreover, within a period of time, the increases tend to have a stimulatory effect on one another: when one price goes up, others follow suit. The result of price increases is social discontent, compounding the sense of difficulty and frustration for the departments concerned. As a result, many people have gotten skeptical about price decontrol. Some want to steer clear of it, others want to go back to the old ways.

Second, a major factor behind price increases is inflation resulting from the government's decision to pump too much money into circulation several years in a row, which in turn stemmed from the government budget deficit. At a time when purchasing power on the market exceeds the supply of commodities, any move to decontrol prices and let the law of value regulate prices would also intensify the price-increase momentum. This is yet another reason why some people want to tighten control and slow down price reform.

In addition, coming in the wake of a round of substantial price increases earlier, the current increases are fast approaching the tolerance threshold of the national treasury, enterprises, and workers, all of whom have come under growing pressure. This also creates doubts and worry about the law of value. Thus there is a hope that prices would be checked so as not to heighten intolerance.

The above analysis sheds light on the difficulties encountered in our effort to apply the law of value and press ahead with price reform. How to extricate ourselves from such difficulties? Further analysis is necessary.

Short-term controls and restrictions that run counter to the law of value may work for a while in checking the current price increases and bridging the gap between supply and demand. But what is certain is that this is not the way to go. If we do so, prices would remain distorted, market mechanisms would not be able to function properly, and supply shortages, price increases, and intolerance would worsen. The law of value cannot be changed by man's subjective will. He who does not recognize it or violates it will suffer.

Our basic hope therefore is still to persevere in reform and use the law of value to regulate prices. Only through price decontrol and the further application of market mechanisms can we promote the development of commodity production and gradually bring supply and demand in line with each other. It is none other than the law of value that has greatly boosted the production of fresh fish, tangerines, bananas, vegetables, and other non-staple food in Guangdong. Consequently, the gap between supply and demand has narrowed and prices have stabilized.

The question of tolerance is essentially one of raising the incomes of government, enterprises, and workers. In particular, we need to raise enterprise profitability, which is pivotal to ensuring an increase in government revenues and workers' earnings. If most enterprise are profitable or highly profitable, then there is a sure guarantee that government revenues and workers' wages will go up, thereby easing inflation. Toward that end, we must accelerate enterprise reform and strengthen market mechanisms so as to improve enterprise productivity steadily, create more material wealth, and increase profitability.

We can thus see that the law of value not only is the driving force behind price increases but also plays a decisive role in promoting production development, raising workers' wages, and easing the strain of price increases.

II. The Law of Value Is the Law of the Development of Productive Forces

When all is said and done, the demand and regulatory effects of the law of value are the development of productive forces.

The continuous development of productive forces and the economizing of labor time are a general law of the progress of human society. Marx called it the most important principle and pointed out that "the economizing of time and the planned distribution of labor time among different production sectors remain the primary economic principle on the basis of common production." He even put forward a formula: true economies (economy) = labor time saved = productive forces.¹

The working of this most important principle is related to the conditions of the society in question and its relevant laws. When human society has advanced to a commodity economy, the law of value, as a basic law of such an economy, regulates commodity production and commodity supply and demand and hence incorporates the demand of the economizing of labor time and the rational distribution of total social labor. As a result, the law of time economizing or the law of the development of productive forces is necessarily integrated with the law of value, making value its chief expression. The law of value propels every producer to improve labor productivity and economize in labor consumption continuously and guides the rational distribution of total social labor based on social needs. To follow the law of value under a commodity economy, therefore, is to satisfy the demand of the development of productive forces.

Under socialism, we need to work hard to develop the commodity economy, on the one hand, and expedite the development of productive forces and the rational distribution of total social labor through the law of value, on the other. Accordingly, methods and tools that help develop productive forces under capitalism and are suited to the demand of the law of value should be used as reference and adopted. Moreover, since the commodity economy has attained a high level of development in capitalist societies, with a sound and modern market system and highly efficient market mechanisms, we should learn from it and use it for reference as well. It is clearly absurd to dismiss as capitalism regulatory functions that comply with the law of value and make use of market mechanisms.

The new economic system that we are building through economic reform is precisely designed to ensure the proper operation of market mechanisms, to speed up the development of social productive forces, and to create more material wealth through the operation of the law of value. Thus decontrolling prices and pushing ahead with price reform is an inherent demand of economic reform. We can neither avoid it nor beat a retreat.

III. The Spontaneous Effects of the Law of Value and State Intervention

This point of view has prevailed in society for a long time: Spontaneous effects are blind effects. They are capitalism. The market economy signifies the spontaneity of market mechanisms; it is laissez-faire through and through. Thus a market economy is the hallmark of capitalism.

To clarify some boundaries, we need to do some analysis as follows:

1. Spontaneous effects are effects coming from an internal demand, without external control. Any law works spontaneously to open up a way for itself to satisfy its special demands coercively. Spontaneous effects are not blind effects. The law of value, for instance, requires that commodity value be determined and that there be exchange of equal values between commodities based on average socially necessary labor time. It works like an invisible hand prodding every enterprise to lower consumption and increase productivity. In Marx's words, it urges every enterprise to "advance, advance" every minute, every second. It works spontaneously and does not depend on any external force. Yet it is more powerful than commands. Thus we cannot equate the spontaneity of the law of value with blind forces and oppose or restrict it accordingly, not to mention branding it as capitalism. The heart of market mechanisms is to bring out the spontaneous regulatory effects of the law of value. To reject the spontaneous effects of the law of value is in effect to reject the law of value. Market mechanisms cannot function under those circumstances.

The spontaneous effects of the law of value should include the punishment we suffer when we ignore its demand. For instance, when prices are controlled overly rigidly, or when commodities are underpriced, producers become unwilling to produce and production suffers. In the end, we are forced to decontrol prices and satisfy the demand of value. When the quality-based price differential between two commodities is too small, more poor-quality goods and less high-quality goods will be produced, leading to shortages. This kind of spontaneous effect is not blind either but reflects problems in work.

2. Spontaneous and conscious effects should not be made mutually exclusive. Nor should they be regarded as the hallmark of capitalism and socialism respectively. Through its spontaneous effects, the law of value regulates production and circulation extensively and is described as "a self-regulator" by Western economists. This self-regulator is necessary in most circumstances under a commodity economy. It is not replaceable by any artificial control or management tool.

But the law of value does not mean total laissez-faire. In the course of self-regulation, there is also room for conscious utilization. "Conscious utilization" does not imply putting man's subjective will above an objective law. It means adapting to the demand of the law of value consciously and eliminating any interference that may occur in the application of the law of value and moderate and remove the resulting chaos and repercussions in order to ensure that the law can accomplish its effects even more smoothly.

Possible interference that may occur in the application of the law of value includes: 1) Factors that intensify conflicts artificially, eg., hiking prices or charging fees

willfully in the course of price reform and price decontrol, panic purchasing and hoarding. 2) Certain inappropriate policies and measures. Both overpricing and underpricing distort price signals and lead to blind production or disrupt production. They should be corrected consciously and promptly. 3) Objective factors. Natural disasters and seasonal changes, for instance, also result in price fluctuations. We should adapt to changing circumstances and take measures to ease the resulting shortages. 4) Measures taken to achieve a specific purpose. Raising the price of a commodity to boost production or lowering it to hold down production may lead to rather sharp price movements. 5) Different pricing measures to apply the law of value by taking advantage of the disparate characteristics of different products. For example, since products differ in their supply-demand price elasticity, we should adjust and decontrol their prices in different ways so that the law of value can work even better in developing productive forces and stabilizing the market. 4) and 5) are essentially examples of planned guidance and intervention, not arbitrary interference. Mishandled, however, they would lead to confusion and interference all the same.

The preceding paragraphs make it clear that conscious utilization is based on spontaneous effects and ensures the achievement of the law of value through intensified guidance, intervention, and management. Not only are the two not mutually exclusive, but they are closely united.

3. We also need to further clarify the relationship between the conscious utilization of the law of value and state guidance over and intervention with the law of value. If we interpret the relationship between man's subjective behavior and objective laws as consciously meeting the demands of the laws and ensuring their successful operation, then conscious utilization and guidance and intervention should belong together, that is, it is also the purpose of intervention to meet the demand of the law and act as a guarantee. Thus guidance, intervention, utilization, control, and management are all planning mechanisms that help bring out the regulatory effects of the law of value. The two are an organically related entity so closely interwoven that they are virtually inseparable. To put it differently, our kind of commodity economy is not laissez-faire and non-intervention in market mechanisms. On the contrary, it is inseparable from intervention. This relationship will obtain even in a market economy. The only difference is that in such an economy, there will be more emphasis on market mechanisms.

IV. We Should Set Rules for State Guidance and Intervention

To make use of the law of value properly, it is imperative that we lay down clear rules for state guidance and intervention. We focus on the following here: 1) Intervention in the functioning of market mechanisms should

not be excessive. We should rely mainly on self-regulation, resorting to intervention only when necessary. This is the only way to make intervention meet objective needs effectively. 2) Old methods such as "monopolies" and "control" should not be revived. (Occasions may arise when centralized management is needed, but even then it should be differentiated from the kind of control under the old system.) Essentially we should make the most of the circumstances and, using mainly economic tools (eg., interest rates, taxes, and exchange rate), eliminate all kinds of obstruction that hamper the operation of market mechanisms. 3) Strengthen legal control and replace the "rule of man" with the "rule of law." Where stricter control is justified (banking, taxation, the management of monopolistic enterprises), we should draw up detailed management rules and regulations based on the demand of the functioning of market mechanisms. Laws and regulations, eg., an "anti-monopoly law" and "anti-profiteering law," should also be formulated to handle conduct like indiscriminate price hikes, panic buying, and profiteering. That way we can clearly delineate the boundaries of state guidance and intervention, with the result that market mechanisms can function smoothly, on the one hand, and arbitrary interference in the course of adjustment caused by unclear boundaries can be avoided, on the other.

State guidance and intervention should be appropriate. By "appropriate," I mean that such guidance and intervention must benefit, not hamper, economic revitalization and the development of productive forces. For example, in controlling the extent to which prices can go up or down, we must base ourselves on objective criteria and make sure there are material guarantees. Setting prices too low at a time when there are not enough material guarantees is bound to fail and may even disrupt production and supplies. This is an example of inappropriateness and violates the law of value.

Delineate the scope of intervention. State guidance and intervention should concentrate on the following: 1) Macroeconomic policy-making and regulation and control, including the printing and issue of currency, interest rates, taxes, exchange rates, and other policies that influence the market directly; balancing aggregate supply with aggregate demand; and controlling accumulation and consumption funds; 2) The state should control the handful of monopolistic commodities and services, including railroads, postal services, and public transport. At the same time, it should take pains to set prices and fees in accordance with the law of value in the interest of balanced development; 3) The state should intervene to eliminate disruptions that may occur in the process of market regulation such as jacking up prices and charging fees arbitrarily and covertly so that regulation can take place smoothly.

V. Conditions Indispensable to the Operation of Market Regulatory Mechanisms

Apart from a minority of commodities whose prices are set by the state, most commodity prices will be determined by market mechanisms. This is the basic goal of

price reform, the core of the new commodity economy, and a fundamental prerequisite for opening up China to the outside world. But the transition to the commodity economy must be accompanied by a series of other coordinated changes as well which are tremendously significant for the working of the price mechanism. In the course of price reform, we must take care to cultivate these conditions:

1. The money supply must be kept at an appropriate size. Pumping too much or too little money into circulation will cause prices to increase or decrease abnormally; destabilizing or disrupting production, circulation, consumption, and other areas of the economy; and directly damaging the operation of the commodity economy. Accordingly, we must put the following major regulatory tools to good use: (1) raising or lowering interest rates and discount rates. (Our main concern at present is to decontrol interest rates.) (2) Controlling the purchasing power of social institutions. (3) taxes. All three have a major impact on the money supply. To utilize these tools effectively, we need to reform the present system in a coordinated way.

2. Policies and measures taken by the various sectors and localities must be consistent with price reform. The extent and methods of intervention by any one sector or locality in the operations of the commodity economy is bound to have a major effect on the progress of price reform. A regional blockade, a sectoral monopoly, a price freeze, or thoughtless price increases or decreases all violate the law of value and will inevitably prevent the market mechanisms from working properly and complicate the creation of a commodity economy.

3. Establish a complete market system. A perfect market system is not yet attainable in the initial stage of socialism. Yet such a market is indispensable to the operation of a commodity economy. The transmission of market information, the establishment of competitive relations, and the fund market, foreign exchange market, labor market, and capital goods markets needed in the information feedback process must all play their special roles. Without a complete market system, market mechanisms will become rusty and cannot perform their regulatory function. Right now some commodity prices are abnormal and price information is not transmitted quickly, precisely the consequences of an incomplete market system (including the fact that the markets for capital goods themselves are incomplete. For example, there is no futures market for commodity exchange.) Thus a major effort must be made to expedite the perfection of the market system. Only through operation and by providing services can the market system be perfected and modernized continuously.

4. A price control policy that differentiates between different commodities.

(1) A policy that takes into account the disparate impact of different prices on the national economy and people's livelihood. We should take extra care to minimize the repercussions of decontrolling the prices of grain, vegetables, meat and work harder to ensure supplies.

(2) A separate management and control policy should be adopted for commodities that are highly seasonal. We should not try to eliminate seasonal supply-demand variations and the subsequent price fluctuations. Instead, we should take the necessary regulatory measures (e.g., a "regulatory fund" and the regulation of materials) to moderate the large price movements that may ensue.

(3) Price decontrol should differentiate between commodities which vary in supply-demand price elasticity and arouse different responses in producers and consumers. In the case of raw material or a commodity for which limited resources exist, for example, we cannot expect a high price to stimulate production. Otherwise, the price would remain high even as shortages continue. Or the resources in question may be damaged (as in the case of Chinese herbal medicines). In that situation, therefore, we should act to control overly high prices. The supply-demand prices of Guangdong pond fish and fruit are fairly elastic. In these cases, production, supply, and consumption respond well to price decontrol and market regulation. Here we should stick to price decontrol and absolutely must not retreat because of short-term price increases. On the other hand, we should be more ready to impose controls on the prices of commodities which are less elastic even after decontrol.

(4) Adopt different transitional measures for different commodities. In the transition from the old system to a commodity economy, we should not demand that all commodity prices be decontrolled overnight. Not only that, but we must take pains to adopt different transitional measures depending on the commodity. Capital goods, for instance, were not traditionally regarded as commodities. Thus they were allocated through planning. The current "double track" system is just such a transitional measure that we must adopt. But transitional measures must not be allowed to become long-term, so we must work hard to create conditions for market regulation. Transitional measures are also needed for those commodities which are suitable candidates for price decontrol. Guangdong's pond fish is an example. When price control was first lifted, the government still kept a certain number of list prices. The next step was decontrolling market prices. Finally, prices were completely decontrolled. This kind of "soft landing" reduces resistance and stays within the public's tolerance threshold.

(5) Institute different guarantees for different commodities. Systematic guarantees at both the production and supply ends are needed if price decontrol is to have the desired regulatory effects without disrupting the market too much. In the case of pork, for example, we should

make sure there is a good supply of pig feed and establish production bases. In the case of vegetables, we must ensure that enough acres are devoted to growing vegetables and that there are adequate supplies of chemical fertilizers, pesticides, and necessary subsidies. If we overlook this aspect ever so slightly, the result may be substantial price movements as part of the spontaneous effects of the operation of the law of value.

5. Coordinated economic structural reforms. In particular, we should intensify enterprise reform and establish a sound relationship among wages, prices, and profits. To bring about a commodity economy is a piece of systems engineering. Price reform is one of its key components, but it cannot forge ahead alone. The success or failure of price reform is closely linked to the progress in economic structural reform as a whole.

At the core of economic structural reform is enterprise revitalization. Consequently, reforming the enterprise ownership system, giving enterprises more decision-making authority, and strengthening their budget restraints are all related to price reform. If enterprises lack decision-making authority and cannot assume responsibility for their own profits and losses, then price signals would mean little to them. Nor will they be able to respond to them normally and sensitively. In these conditions, we cannot even begin to talk about market mechanisms. Thus we must not think that price reform can stay ahead of and in isolation from enterprise reform. On the contrary, their relationship is one of mutual interaction, restraint, and promotion.

The question of tolerance in price reform is essentially one of economic revitalization, primarily enterprise revitalization. In pressing ahead with price reform, we inevitably tend to push prices upward. A natural demand in that situation is that wages be pegged to prices. This is because wages themselves represent the power to purchase all kinds of commodities. These days, however, people only notice the relationship between wages and prices, ignoring something even more important: the relationship between wages and enterprise profits. Only rising profits would enable enterprises to offer higher wages to their workers and pay more taxes to the government, which, in turn, would mean higher pay for administrative, cultural, and educational personnel. When enterprises are unprofitable, they cannot afford higher wages for their workers and pay less taxes to the government. With shrinking revenues, the government in turn cannot increase the pay of its workers without resorting to printing money to make good the budget deficit. The result is inflation and worsening price increases—a vicious circle. Thus any talk about pegging wages to price increases while ignoring the relationship between wages and profits cannot really solve the problem of intolerance.

The key to solving intolerance therefore is still more reform: revitalizing enterprises and improving their margin of profit. This is the only way to transform the

vicious circle into a positive circle involving profits, wages, and prices. The more profitable the enterprises, the higher the wages and welfare for workers, government personnel, and teachers, and the greater the tolerance for price increases, which would only expedite price reform. Price reform, in turn, would help enterprise revitalization and production development, which will contribute to price stabilization. The goal of our endeavors is to create this kind of positive circle.

In China, wage levels tend to lag in areas where the commodity economy is underdeveloped. In areas where the commodity economy is more advanced, eg., Guangdong, wage levels are higher and there is greater public tolerance for price increases. Why? Looking further afield, why are enterprises in Hong Kong and Macao, where the commodity economy is highly developed, and in developed nations able to pay their workers much higher wages? Why can those governments afford to pay their civil servants much better salaries? Not because these enterprises are particularly generous, but because they are much more profitable. The difference is that with a more developed commodity economy and concomitant market mechanisms, these enterprises are able to chalk up a much higher rate of profitability. Thus the question of increasing tolerance basically boils down to one of speeding up the development of a commodity economy and creating all kinds of necessary conditions for the operation of such an economy. Ours is a planned socialist commodity economy. By avoiding the haphazardness and disruptions of the functioning of market mechanisms, we are capable of making use of such mechanisms more effectively to stimulate production. Hence it is possible to find a new solution to the intolerance problem. To sum up, only by intensifying reform and expediting the development of productive forces can we surmount the difficulties ahead.

Footnote

1. *Outlines of a Critique of Political Economy*, Vol 3, p 364

FINANCE, BANKING

Communications Bank Expands Overseas Business

OW2401233489 Beijing XINHUA in English
1454 GMT 24 Jan 89

[Text] Shanghai, January 24 (XINHUA)—The Bank of Communications, China's first share-holding banking organization, has entered the international monetary market, chairman of the board of directors and general manager Li Xiangrui said here today.

Li noted that the bank issued bonds worth 200 million H.K. dollars and 100 million U.S. dollars on the international monetary market last year.

It has decided to issue 100 million U.S. dollars-worth of bonds this year.

Moreover, the bank has already established agency and account relations with 177 banks overseas.

According to the general manager, the bank issued loans totalling 9.78 billion yuan last year—6.2 billion yuan more than in the previous year, to aid the country's construction.

Its total deposits by the end of last year reached 9.7 billion yuan. Included were savings deposits totalling 238 million yuan, some 10 times more than in the previous year.

Elimination of Inflation, Deficit

40060223b Beijing JINGJIXUE ZHOUBAO
in Chinese 18 Dec 88 p 3

[Article by He Zhenyi 0149 2182 0001: "Control of Currency Inflation Must Not Overlook the Need To Eliminate the National Financial Deficit—Thoughts on Overcoming the Financial Difficulties"]

[Text] Since the start of the economic reform, the problem of the financial deficit has at several times been a topic of lively debate, but is being somewhat neglected at the present time when attention is more directed toward controlling currency inflation. But considering the present realities and the current system, the financial deficit is actually a major cause of currency inflation. If control of currency inflation is attempted without paying attention to the financial deficit, prospects for any progress in the control of currency inflation will be dim indeed.

I. Reasons for Perennial Deficits

In my opinion the fundamental reason for the financial deficit is the problematic organizational system, namely the incongruities between responsibility, power, and interests in financial reform, and also the stagnation in reforming financial functions.

There is, first of all, the contradiction of having done away with the centralized collection of all receipts by the state, while still retaining the system of centralized allocations by the state. The largest portion of state revenue is derived from state enterprises. For the last 10 years, the reform to revitalize enterprise continuously delegated power and interest. According to the principle of the unity of responsibility, power, and interest, it would have been necessary to equally delegate financial responsibility at the same time that power and interest were delegated to the enterprises. This alone would have ensured unity of responsibility, power, and interest in public finances and in the financial affairs of the enterprises. Because functions of public finance were not changed, public finance still had to bear responsibilities on behalf of the enterprises for providing capital funds for various purposes at a time when power and interest had already been delegated to the enterprises, also to bear responsibility on behalf of the enterprises to make

good losses by subsidies, to provide capital for renovations and transformations, to allow repayment of loans before taxes, etc. This not only destroyed the unity of responsibility, power, and interest in the financial affairs of the enterprises, but also unity of responsibility, power, and interest in public finance. From the start of the reform until now, as a result of delegating power and interest to the enterprises, the enterprises have capital of almost 100 billion yuan per annum at their free disposal, while public finance has not only divested itself of almost 100 billion yuan of revenue, but also assumed responsibility to provide the enterprises with billions and billions of capital. This situation not only makes it impossible to eliminate the corrupt practice of having the enterprises "eat from the big pot" of public finance, but also drives public finance onto the road of imbalance between revenues and expenditures.

Secondly, it destroyed the balance between the structure of the financial resource distribution and financial needs. Smooth economic and social progress is only possible if the proportions of national income distributed between state, enterprises, and individuals during a certain period can accommodate the minimum requirements of the various sectors. Due to the stagnation in the reform of public finances, which has allowed delegation of power and interest to emerge as the single conspicuous items, enterprises and individuals had their portion of the national income continuously increase, while the portion accruing to public finance has declined in large measure. By now, the proportion of the national income going to public finance has gone down from 37 percent before the reform to 25 percent, but the capital requirements of public finance to fulfill its functions not only cannot be cut back correspondingly, but on the contrary are gradually expanding due to the expanding portions of the enterprises and individuals. A deficit in public finances is therefore also unavoidable.

The above analysis shows that the root of the financial deficit is not to be found in the management of revenue and expenditure by public finance, but in the organizational system. Giving attention merely to revenue and expenditure cannot basically resolve the difficulty; the way out is the pursuit of reform in greater depth.

II. Price Reform Provides a Good Opportunity To Overcome Financial Difficulties

As it may indeed increase the burden on public finance, price reform appears to be detrimental to any elimination of the financial deficit, but actually we should regard a more thorough pursuit of the price reform and regulation of the economic environment as providing condition and opportunity for elimination of the financial deficit. Regulating the environment and a more progressive price reform provide possibilities for saving financial expenditure and increasing financial revenue, and create opportunity for an adjustment of the financial distribution policy and for overcoming the incongruity of public finance and price reform. Because price reform

is bound to bring about a change in the interest relations of various sectors, these changes will directly or indirectly become reflected in the financial distribution relations. Public finance will unavoidably have to institute corresponding adjustments and will have to grasp this opportunity to resolutely change financial functions, adjust its distribution policy, and thus open a way out of its difficulties by eliminating the deficit.

III. Measures To Change Functions and Eliminate the Deficit

A. Instituting a reform of separating public finance functions from ownership functions, transferring ownership functions to the administration in charge of state-owned property, while at the same time restructuring the state budget and separating the public finance budget from the budget for business operations of state-owned investment capital.

B. Adjusting the distribution policy, reforming the tax system, separating the flow of tax revenue from the profit flow, so that an adequate amount of tax revenue can ensure balancing the public finance budget.

As the enterprises will be ensured of the necessary capability to undertake self-reforms, the administration in charge of state-owned property shall institute distribution of profits after taxes of the enterprises in accordance with macroeconomic needs of adjustment and control and the demands of its industrial policy, thus changing the situation of the past of protecting vested interests and of exercising an arbitrary uniformity in allowing profit retention, and shall employ a policy of gradient distribution of profits after taxes.

C. Instituting a more thorough reform of the financial system of enterprises, initiating the separation of state financial functions from enterprise financial functions, transferring to the enterprises the various financial responsibilities and powers which independent commodity producers and traders must have and of necessity exercise, so that public finance need no more bear financial responsibility on behalf of enterprises, that the enterprises are truly moved onto a track of financial self-management and taking responsibility for their own profits and losses.

Discussion of Country's Financial Problems, Solutions

40060223a Beijing JINGJIXUE ZHOUBAO
in Chinese 18 Dec 88 p 3

[Article by Liu Chengxiang 0491 2052 3276: "China's Financial Dilemma and the Way Out"]

[Text] The difficulty of China's present situation is that there is on the one hand loud clamor for more financial support for economic and social development, and on the other hand a constantly diminishing capability of the

centralized financial resources of the state. The contradiction between growing demand for and inadequate supply of capital is becoming increasingly serious. Public finances are in a dilemma, and an effective solution of the financial problem has become a major factor that cannot possibly be ignored in our efforts to ensure stability and the well coordinated development of the national economy, as well as for smooth progress in our reform.

The Signs of Financial Difficulties

Indebtedness is increasing year after year and may end up in a disastrous debt crisis. In recent years, the state's financial indebtedness to foreign countries has increased year after year. In 1987, the 10 billion yuan mark was breached with an indebtedness of 10.3 billion yuan. In 1982, the amount of treasury bonds issued was 4.4 billion yuan, and rose to 6.1 billion yuan in 1985. For 1988, it is planned to issue another 9 billion yuan, which makes for one step up every 3 years. Between 1979 and 1987, the intake from financial obligations was 78.6 billion yuan. Deducting 38.8 billion yuan of already repaid capital and interests, the accumulated indebtedness for the 9 years was 39.8 billion yuan, and if we add the net foreign and domestic indebtedness of 13 billion yuan provided for in this year's budget, the accumulated indebtedness to the end of 1988 will reach 52.8 billion yuan. After 1990, when repayments of debts will culminate, by taking up new debts to repay old debts, more and more debts will accumulate, and if not properly dealt with, the situation can end up in a disastrous debt crisis.

Year by year increasing subsidies have become a heavy burden on the treasury. In 1978, subsidies by the treasury amounted to 16 billion yuan. By 1987, subsidies by the treasury had reached 73.3 billion yuan, which is a 4.6 times increase in 9 years. In this amount, commodity price subsidies rose from 7.9 billion yuan in 1978 to 29.4 billion yuan in 1987. Tax exemptions or reductions amounted to only 600 million yuan in 1978, but rose to 6.4 billion yuan by 1987. Subsidies for losses incurred by unprofitable enterprises amounted to 37.5 billion yuan in 1987, a net increase of 30 billion yuan compared to 1978. It is expected that the amount of financial subsidies in 1988 will reach somewhere around 80 billion yuan. The rapid and huge increases in financial subsidies are on the one hand sharply reducing a part of the state's revenue, and on the other hand expanding the whole plate of financial expenditures, becoming a heavy burden which the treasury cannot escape in any possible way.

Continuous deficits over the years affect stability and well coordinated growth of the national economy. From 1979 to 1987, despite foreign loans and treasury bond issues, state expenditure still exceeded all funds taken in by the state. Apart from 1985, when there was a surplus due to special circumstances, deficits were incurred in all the other years. In recent years, the trend was one of

increasing deficits, to which must be added this year's budget deficit of 8 billion yuan, so that at the end of the 10 years from 1979 to 1988, the deficit will reach 65.2 billion yuan. Remedy for this huge deficit will rely mainly on bank overdrafts, forcing the banks to increase currency supply, and as a result of this multiplication of currency, with total social demand by far exceeding total social supply, market retail prices will continuously rise, which in turn will have an extremely detrimental effect on future efforts to reform the economic structure.

In this dilemma, the state's financial administration cannot possibly exercise its role of macroeconomic regulator, and is incapable of eliminating all elements of instability in the national economy.

The Way To Overcome Financial Difficulties

At the present juncture, when the reform of the economic system has reached a critical stage, public finance must seek its way out of the dilemma by the following measures:

A. A clear definition of the spheres of authority in financial matters, increases in state revenue to match increases in the national economy. To have spheres of authority in financial matters rationally apportioned depends on establishing an identity of microeconomic revitalization with macroeconomic adjustments and controls, as manifested in the use of capital funds. They are to be used as a means of administrative management and the development of various undertakings as well as for investments in basic fixed assets. From 1979 to 1987, state revenue increased at an average rate of 9.7 percent, which is lower than the 13.6 percent average growth rate of the national economy, and state revenue accounted for 26.9 percent of the national income. This shows, objectively, a decline in the capability of state finance for macroeconomic regulation. If state revenue would increase at the same rate as national income, state revenue would account for around 29 percent of the national income, the present proportion would be raised by 5 percentage points, and that would change the present situation, where state finance is incapable of macroeconomic adjustments and controls.

B. Perfecting the accounting system of the national economy, improving control and guidance of extra-budgetary capital funds. The departments in charge of public finance must become departments that regulate and control the capital funds of the entire society. They must, therefore, actively cooperate with the statistical departments in establishing a sound accounting system for the national economy, compile tables on the flow of capital funds throughout the entire society, clarify the exact amount of social capital, its distribution, and the way it moves, and then methodically employ economic levers to guide all the various types of capital funds to be rationally applied where they will benefit economic and social development. The problem that still exists is that

extrabudgetary funds are not fully under statistical control; there are no accurate figures on independently received and expended capital funds under the control of urban and rural collectives, and the forms currently used to report financial matters are unsatisfactory as they will not meet the requirement for an accounting system for the entire national economy. To establish effective coordination in statistical matters, it is therefore extremely necessary to establish statistics for China's public finances. Only by gaining absolute clarity about the condition of capital funds throughout the entire society, will we have substantial targets for guidance and control of extrabudgetary capital funds, and will it be possible to achieve good results in this respect.

C. Building up confidence in public finances, better returns from the use of capital funds. Since the start of the reform, the issue of treasury bonds and key construction bonds by the Ministry of Finance was of a certain effectiveness in directing extra-budgetary capital funds toward useful purposes and in enhancing the state's financial strength. The change from a system of state allocations to a system of loans for capital construction expenditures has also played a role in improving returns from investments. As the reform and the development of the planned commodity economy are being pursued in greater depth, confidence in state finance will grow correspondingly.

At present, business organizations of various types are being initiated and these new business organizations are working on the principle of "whatever money is needed will be demanded from higher authority, and whatever expenses will be incurred will be taken care of by the state." But in their external business dealings, they provide their services against remuneration, while they use in their business operations state funds supplied free of charge. Very large portions of their income then becomes extra-budgetary funds of the units in question. In basic salaries and wages, they follow the administrative system, and in bonuses they emulate the enterprises, but in all other respects their business expenses have become a heavy burden on public finances. It may therefore be considered to have turnover and use of business expenses gradually provided against remuneration, and to be repaid in due time. This would improve the use rate of capital funds and would also be beneficial for achieving a balance between fiscal receipts and expenditures.

D. Pursuing a more thorough enterprise reform, using the lever of taxation in an animated and flexible manner. Enterprises are the fundamental organizations that create national income; they are the sources from which the state is obtaining increasing revenue. During the period of pursuing enterprise reform in greater depth, we must energetically assist the enterprises in improving management, in perfecting their internal business accounting systems, must guide enterprises in the rational use all the various special funds, in their intensified technological transformations, and must ensure enterprise logistics. At

the same time, we must use taxation in an animated and flexible manner as a means of adjusting distribution as between state, enterprises, and citizens. According to the new economic situation, and the new conditions for business operations, also in coordination with the macroeconomic management, we must readjust the various taxes and tariff rates, and perfect the mechanism for the distribution of economic returns as between the various social and economic strata.

Causes of 'Financial Crisis'

40060223c Beijing JINGJIXUE ZHOUBAO
in Chinese 18 Dec 88 p 3

[Article by Xu Zhichao 6079 1807 6389: "Causes of the Financial Crisis"]

[Text] To say that China has slid into a financial crisis sounds like a deliberate exaggeration to attract attention, but as it presents itself today, the financial situation is indeed extremely grim; it manifests itself mainly in the following phenomena: 1. At the same time as the national economy grows at a very rapid pace, state revenue shows low or negative growth; 2. As the deficit of state finances is increasing year by year, the state is compelled to continuously cut down on investment expenditure, which is constantly weakening the capability of the state's financial administration to regulate and control the economy, and which transforms the position of the state's financial administration more and more into one of passivity; 3. The contradictions between central and local authorities, and between the various local authorities themselves, are growing increasingly sharper.

Faced with the various macroeconomic difficulties and problems, the regulatory power of China's state finance is continuously weakening. This can be blamed on a variety of things. As far as the financial administration is concerned, the direct cause is the financial distribution system itself.

1. The current financial system is characterized by two fundamental factors: First, most regions in their relations to the central government's financial administration are on a contract distribution system with fixed absolute figures. Increases in revenue are for the greater part retained by the regions; the amounts that the central authorities receive from the regions are basically expressed in constant figures. In this way, the proportion which the central finance authorities receive out of newly increased incomes is getting smaller and smaller. At a time of currency inflation, when most practice "contractually assumed progressive increases," the rate of progressive increases is lower than the commodity price index. As a consequence, whatever they turn over to the central authorities are by name "contractually assumed progressive increases," but in reality amount to a relationship of progressively decreasing remittances. Second, the proportions of distribution differ between different regions, particularly the distribution of newly

increased income. Backward regions are mostly subsidy areas, and therefore may retain 100 percent of their revenue. The retention ratio for well developed regions is generally comparatively low. This has a double effect on the central government finances: One effect is that due to the changes in the price structure this year, prices of inputs have risen faster than prices for finished products. This has led to financial income shifting from developed to the backward regions. In the overall view, growth of financial income is faster in backward regions than in developed regions. The other effect is that in most regions that turn over income to the state, the proportion of retained funds is very low, the proportion from increased income is very low, and the share in reduced income is also very low. A method of "concealing wealth in the enterprises" is, therefore, generally practiced, and this has a considerable adverse effect on the revenue of the central government.

All these special characteristics of the financial system aggravate the financial contradictions between central authorities and local authorities, and between the local authorities themselves. The difference in the financial sharing of the different regions signifies a difference in the tax burden in the different regions. In this way, financial investments by higher authorities favor those among regions of equal rank that have a very high financial share. On the one hand, this creates inequality of developmental opportunities for different regions, and on the other hand may adversely affect the rational disposition of investment capital resources. Because a large volume of reform measures can have the effect of reducing financial revenue, and reduced financial revenue again is to be borne according to the current financial system, the reform measures result in an inequality of benefits and disadvantages in local financial revenue, and make it impossible to implement uniform reform policies equally in all regions.

2. The current system of profit distribution as between the state and the enterprises is of great consequence for the low growth rate of fiscal revenue and equally for the financial deficit. Enterprises under the contractual business management responsibility system have, first, rigidly contracted base figures and progressive increases of profits to be turned over to higher authorities, and, second, enterprise profit tax burdens which are computed on this basis, and there are great differences between the different enterprises. The greatest difficulties with this type of profit distribution system are: First, fluctuations of supply and demand in the market and of the economy, which objectively occur, are in sharp contradiction to the methods of rigidly fixed base figures and progressive increase scales for profits to be turned over to higher authority. When the economic outlook is good, the financial authorities cannot take in more revenue. When the profit rate declines because of bonuses, allowances, and various wages, salaries, and welfare entitlements of staff and workers, the income growth rate remains rigidly fixed, and the financial authorities will of course be pressured to reduce taxes

and yield profits to help the enterprises overcome their difficulties. Second, the financial authorities cannot benefit from the fact that some enterprises are able to achieve increased profits by raising prices, because the base figures for turning over profits to higher authority had been rigidly fixed, while in the case of enterprises with reduced profits due to price increases, the finance authorities will also be compelled to render assistance. The state's finance authorities on the one hand are having increased expenditures due to price subsidies, salaries and wages, and investments in key construction projects, but on the other hand, under the current income structure, cannot correspondingly gain more revenue, or will receive even less revenue. The result undoubtedly is that balancing revenues and expenditures is becoming more and more impossible.

Searching for the cause of the trouble will enable us to adopt appropriate measures. These would be to transform the current system of public finance, adjust the various policies of granting favorable treatment, institute at key points control over fiscal expenditure, etc., to enhance the capability of the state's financial administration to regulate the national economy.

Number of Financial Organizations Growing
HK2401124389 Beijing CEI Database in English
24 Jan 89

[Text] Beijing (CEI)—The number of foreign financial organizations in China has reached 30, and their profits are on the increase.

These organizations include foreign banks, banks owned by overseas Chinese, the branch offices of Hong Kong based China-funded banks, and Sino-foreign-funded banks and financial companies.

These organizations are distributed in the Shenzhen, Zhuhai, Xiamen and Hainan Special Economic Zones and Shanghai.

The total capital fund of 27 foreign financial organizations in the special economic zones is 2.54 billion U.S. dollars. They have deposits totalling 1.27 billion dollars and have given out 0.75 billion dollars of loans.

Bank Official Urges Organizing Stock Markets
Based on National Situation
4000191 Beijing ZHONGGUO SHIBAO
in Chinese 12 Dec 88 p 1

[Article by Chinese People's Radio reporter Li Boshu 2621 0130 2885 and JINRONG SHIBAO reporter Zhang Jidong 1728 4949 2639: "Responsible Person of People's Bank of China, Funds Administration Department, Proposes Setting Up a Chinese Stock Market Based on the National Situation"]

[Text] The head of the Funds Administration Department of the People's Bank of China declared a few days ago to reporters that "If we are to establish our country's

stock market, we must do it according to China's situation. We can borrow from the successful experience of the West, but we cannot imitate their methods indiscriminately."

This department head said that the State Restructuring of the Economic System Commission and the head office of the People's Bank of China are presently studying the following laws and regulations: "Methods of Regulating the Issuance of Stock" and "Methods of Regulating the Transferral of Negotiable Securities." The purpose is to provide a legal footing for stock market regulation and set standards in order to make macroeconomic controls stronger and more responsive, and avoid immediate loss of control when controls are relaxed or excessive rigidity when control is tightened.

This department head said that under the present conditions, banks utilize indirect credit to raise social funds and take care of a large volume of the loans called for by the state plan. This is the primary medium of socialist credit. In addition, as economic reform and opening deepens, another method for stimulating the economy is gradually opening: the stock market. He believes that after the stock market opens it will allow enterprises to raise funds directly from society at large by issuing stocks and bonds. They will be able to tap funds which are scattered throughout society as well as effect a transfer of some bank deposits. Therefore, the volume of funds generated through direct investment must be properly controlled and must be kept in balance with the volume of funds generated indirectly in order to maintain harmony between it and the total growth of socialist funds.

While discussing the management of socialist finances, this department head pointed out the fact that China has opened up financial markets in recent years, and that there has been definite progress. This is a major breakthrough in China's financial reform. It has not only changed the high degree of centralization of China's banking and credit structure of the last several decades, but has also united indirect and direct methods of fund generation and increased the number of ways funds can be generated. It also helps to stimulate circulation of funds that tend to get squirreled away in different departments and at different levels. It stimulates horizontal economic links, speeds up the circulation of funds, and raises the efficiency of fund utilization. However, at the present not only is credit growing too rapidly, but direct pooling of funds is also occurring rather fast, and runaway growth of both direct and indirect funds could occur, so we must watch the situation carefully.

This department head pointed out that in order to effectively suppress inflation and assure balance of supply and demand, there must be a single government organ to provide unified control and regulation of socialist credit levels. The State Council's "Interim Regulations for Bank Management in the People's Republic of China" specifies the People's Bank of China as the organ

charged with the regulation of such negotiable securities as stocks and bonds, and as the functional department in charge of regulating financial markets. Recently the State Council reiterated the fact that this arrangement is appropriate for China's conditions, and that it not only contributes to the healthy development of financial markets, but also helps to control the level of fixed asset investment and strengthen the Central Bank's macroeconomic control.

It has been reported that some comrades have recently suggested that China establish a separate organ to regulate such negotiable securities as stocks and bonds, as well as financial markets, as is done in the United States and other western nations. In response, this department head emphasized that conditions in China are not the same as in the West. In the West, enterprises are managed with complete independence, are responsible for their own profits and losses, and so at all times face the risk of bankruptcy; therefore, it is feasible for the governments of Western nations to establish separate organs to regulate stock markets, but given the push of rapid economic development and investment starvation, if China indiscriminately imitated systems in the West and separately established stock market regulatory organs in every level of government, the government would cause direct generation of funds to explode, which would be very damaging to macroeconomic control of financial markets.

In discussing the question of overall balance of socialist credit, this department head emphasized that the direct and indirect generation of funds are interconnected, and that the funds generated are all socialist funds. If the Central Bank only controlled indirect funds, that would cause large amounts of socialist funds to flow toward the stock market and would easily cause the transfer of a large amount of bank deposits. While adhering to the principle of keeping indirect funds as the principal vehicle of fund generation and direct fund generation as the secondary vehicle, as well as upholding unified regulation of both vehicles by the Central Bank, China must also take care to regulate proportions and assure overall balance in order to keep them in harmony with the growth of socialist funds.

Lastly, this department head pointed out that irregular phenomena have occurred during recent months in financial markets, and particularly in securities markets. For example, without approval from the Bank of China, some departments, work units and enterprises have issued stocks and bonds on their own authority, and have established stock exchanges. Some localities have set up financial institutions such as securities companies on their own authority, and have even utilized administrative interference to force stocks and bonds on their own workers and staff. All branches and organs of the Bank of China must carry out their duty to resolutely put these problems in order and correct them within the prescribed time period.

Recent Measures To Promote Development of Financial Market

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No 10, 11 Oct 88 pp 43-48

[Article by Jing Xuecheng 2529 1331 2052 of the Institute of Financial Research, People's Bank of China: "Recent Measures for Promoting Financial Market's Development"]

[Text] China's financial market has been growing rapidly in the last 2 years. Besides having more market tools, the volume and the value of transaction have also increased significantly. In 1987, inter-bank short-term loans have increased to 240 billion yuan from 30 billion yuan in the previous year, a seven-fold increase. They made up about 10 percent of the turnover of credit loan funds in that period. By the end of 1987, the cumulative value of assorted stocks and bonds issued topped 64.6 billion yuan. Meanwhile, in 50 cities, including Shenyang and Shanghai, negotiable securities are being traded; so far, 120 million yuan worth of securities have changed hands. I have estimated that in 1988, total inter-bank short-term loans are worth around 400 billion yuan and new issuances of securities are worth close to 50 billion yuan; the issuance of bonds alone amounts to nearly three-quarters of the cumulative value of all securities issued in recent years. The year's cumulative security issuance will exceed 110 billion yuan, possibly making up 10 percent of the national income. Amid the development of the various kinds of financial markets, the foreign exchange-regulation market has officially been decontrolled, and in the secondary markets, trial implementation of the decontrol of the treasury bill market is underway. Under the circumstances, we must make sure that the further development of the financial market is on the right track, that it complies with monetary and financial policies, and although earlier the emphasis was more on the spontaneous emergence and creation of the market and on promoting the horizontal flow of funds and increasing the liquidity of funds at the mid- and micro-levels, now we want to perfect the financial market and develop key secondary markets. And we should coordinate this development with the more effective implementation of monetary policy and financial policy and with the efforts to put the credit loan fund allocation mechanisms and the nation's economic fund allocation mechanisms on the right track. This article offers some views on recent measures adopted to promote such development.

1. We need to set up short-term financing companies, create inter-bank short-term loan market networks and a stratified short-term loan market and establish a "double track" short-term credit fund circulation system and turn it into the central bank's "secondary control center." The inter-bank short-term loan market has played the precursory role in the transformation of China's fund gathering and distribution mechanisms, from rigid, vertical, planned allocation mechanisms to

market mechanisms. Today, besides being guided by practicality and not formalism, we should also emphasize the invisible market and integrate the visible and invisible markets, and be more efficient in gathering funds by trimming expenses and lowering the cost of gathering funds. But more important, we should find a way to make the reform more thorough and turn the inter-bank loan market into a market-oriented fund gathering channel which operates alongside the existing vertical credit loan system. The inter-bank short-term loan market should not be merely a supplement to the central bank system's vertical credit loan fund allocation channel. In the latter situation, the inter-bank short-term loan market is in fact dispensable, significant only because it circulates funds horizontally; more precisely, it is essential only in a tight money situation and is dispensable otherwise. For this reason, we must give the inter-bank short-term loan market a third dimension, create networks, and create different levels.

We can say that in the course of the development of the inter-bank short-term loan market, we have made good progress with establishing lateral relationships and creating networks. Throughout the northeast, northwest, southwest, and in east China, north China, and central China, there are more than a dozen short-term loan market networks in the provincial cities (prefecture) and counties. These markets not only open regularly and post prices, they also share information to gather idle funds. They are still expanding, and therefore to perfect and amplify the inter-bank short-term loan market, it is imperative that we set up a three-dimensional, stratified inter-bank loan system. As far as stratification is concerned, at present, I can discern clearly three separate levels: the first comprises of short-term loans among primary-level specialized banks, for example, among the financial institutions in the prefectures, cities, and counties. The second level is the trans-system, transregional short-term loan networks which span several prefectures and cities and extend across provinces and regions and are characterized by the economic districts, urban centers, and localities with historic or geographic ties. At the third level are the new regional short-term fund gathering companies (also known as "short-term financing companies") which are under the leadership of the central bank. The intra-level and inter-level relationships are quasi-market lending-borrowing relationships. There is absolutely no mandatory allocation plan to speak of. Of the three levels, the short-term financing companies led by the central bank are the last "offer of help" for those who gather funds in the market while the first and second levels play the dominant role in the short-term loan business and the fund circulation networks. Of the two, needless to say, the first level is the primary level, but the second level is the focus of development, and developing trans-system fund lending and borrowing is the most important task here, because only if funds can circulate at this level can we break through the rigid rules and regulations and be free to be more efficient. In the future, the second and third levels, or even all three levels, may merge into one (that is, the short-term fund

lending and borrowing among financial institutions will be handled by the short-term financing companies) or partially merge into one. But within the foreseeable future, we will need all three levels.

To promote the formation of the above tri-level short-term loan system and perfect the short-term loan market, it is important that we set up short-term financing companies on top of what we already have. At present, Fuzhou, Ningbo, Hangzhou, Bengbu, Nanchang, Jingdezhen, and other cities have already formed short-term financing companies, and many other prefectures and cities are preparing to follow in their footsteps. Short-term financing companies are financial enterprises which gather and distribute short-term funds among financial institutions and fund gathering networks under the leadership of People's Bank of China. They should adopt a stockholding system. Primarily, they handle short-term loan transactions and, depending on the situation, may engage in other fund gathering activities, such as buying and selling short-term bonds and certificates of deposit in large denominations, and may take care of other business on behalf of the central bank, for example, rediscounting. The main source of the short-term financing companies' funds is the financial institutions' own temporarily idled funds. Funds can be raised either through stock participation or by means of bonds issued by the short-term financing companies. Local people's banks may lend a portion of their funds, within the limit approved by the headquarters of People's Bank, to the short-term financing companies. With respect to funds, the short-term financing companies' relationship with the central bank is that between borrower and lender. They are financial enterprises which are legal entities and independent accounting units and are responsible for their own profits and losses. But when it comes to the implementation of the state's monetary policy, where these companies put their funds should be guided by the central bank's macroeconomic policies. The relationship between the short-term financing companies and the local financial networks is also a market-oriented fund lending-borrowing relationship. Only under certain conditions are they the "last hope" for short-term funds to the various networks, but they are by no means like the central bank which in most situations is the "lender of last resort" to the various specialized banks. In this way, short-term lending and borrowing among financial institutions is on track with the central bank's monetary policy, and the short-term financing companies become the central bank's intermediaries or "secondary control center" for macroeconomic control. To a certain extent, this can alleviate the People's Bank's lack of means and tools of control and replace the pressure on the central bank to print more money to fill the gap left by inter-bank loans with the driving force to let the central bank take the initiative to control the inter-bank loan market, guide the funds to optimal use, and make structural adjustments.

When the central bank limits loan availability rather than guarantee funds, the specialized banks have to work harder to attract more deposits in order to extend more

loans. The remaining fund deficiencies and excess fund demand are felt in the inter-bank loan system, creating a pressure on the short-term financing companies. Therefore, their interest rates, and even the inter-bank loan rates, can be decontrolled first, and let the freely floating rates reflect the scarcity of funds, and when some financial institutions act responsibly and begin to make better use of the funds, they can gather what they really need [in the market,] and other financial institutions which have potential funds will tap their own resources because of the high rate of interest. In this way, with the short-term financing companies and the floating interest rates, we can arrive at standard, market inter-bank loan rates which can be the reference point for revising the structure and the standard of interest rates. Thus, a problem which the present central bank credit loan fund system would not, or could not, experiment with is solved on its behalf by the inter-bank short-term loan system.

It is very obvious that the short-term financing companies will help fulfill this year's monetary policy goal to "control the overall volume and make structural adjustments." In the present central bank credit loan fund circulation system, compared to making structural adjustments, controlling the total volume is an easier task. This is what many bankers in central banks around the world and experts in international monetary fund organizations are proud of; they have insisted that a central bank's responsibility is to control the overall volume. But China's economic reality and the course of restructuring the economic system demand that the central bank not only control the overall credit loan volume but also the direction of the credit funds, not only promote economic growth but also restructure the national economy and build the foundation for the mid-to long-term, coordinated, steady growth of the national economy. But in practice, between 1984 and 1986, we saw a serious lack of coordination between volume control and structural readjustment. This reflects the central bank credit fund system's lack of mandatory credit restraints at the mid- and micro-levels (we will not discuss the issue of enterprises' own lack of self-restraining mechanisms here) and the lack of the means or mechanisms to control the overall volume and also give impetus to spontaneous adjustments in the direction of funds at the mid- and micro-levels and adjust the industrial structure and the mix of business and products at the same time. In 1987, we tightened the central bank's loans, raised its lending rates, raised the deposit to reserve ratio, and initiated the credit cooperative special deposit business and so on, and as a result, instead of the seesawing ups and downs and the wild swing between rigid control and total expansion, we have achieved fairly good and balanced results in overall volume control, structural adjustments, macroeconomic control, and microeconomic revival. We must still find a mechanism which can ascertain the availability of funds at any time and which can promote self-adjustment in the financial intermediaries and enterprises. This will require more than introducing a few measures, but an inter-bank short-term loan system with decontrolled,

flexible interest rates can perform those two macroeconomic functions. It can provide high-cost funds for the more profitable financial institutions and enterprises and can control the total credit volume without limiting the effective use of funds, and at the same time, it can reduce the pressure of increasing demands on the central bank's credit loan fund system and give it more room to maneuver. In this way, by continuously diverting the planned amount of central bank loans to the short-term financing companies each year, the shift to the inter-bank loan system not only will put the total credit loan volume under restraint and control but will also force the financial institutions and enterprises to make proper adjustments on their own. Furthermore, this is a gradual and natural process which will not be as turbulent as tightening the central bank loans.

For these reasons, the existing central bank credit loan fund extension system should be modified to facilitate the development of the inter-bank short-term loan market and the establishment of the tri-level short-term fund gathering system. The People's Bank of China can allocate a progressively greater share of the central bank's loan funds to the short-term financing companies every year to increase not only the absolute amount but also the proportion of their loan funds to expand the scope of short-term fund gathering in the market and put the credit loan funds allocation system on a new track. Meanwhile, the financing companies can issue short-term bonds to raise money to enhance their ability to gather fund in the market. In order to expand the scope of operation of these financing companies, we must develop negotiable credit instruments and rediscounting and open short-term loan markets outside of the inter-bank system. In this way, the short-term financing companies can rediscount notes and increase the variety and the scope of market-oriented operations. Otherwise, the money market is basically limited to short-term lending and borrowing, and worst yet, there is short-term lending and borrowing among financial institutions only, and this, I am afraid, will not suffice to disperse the pressure of mounting credit demand on the administrative departments, and more important, it may have no impact on enterprises, and possibly the system will be somewhat flawed because of the direct control.

2. We need to adopt comprehensive measures to continuously promote the development of the bond market, develop the stock market, and promote the formation of intermediate-term fund markets. Based on the way funds are gathered and how soon they have to be repaid, the market is generally divided into short-term (within 1 year) money markets and long-term (more than 1 year) fund markets. These categories are too broad. Actually, the long-term fund market can be divided into intermediate-term, long-term, and indefinite-term markets. Generally, 10-year or shorter constitutes intermediate term, 10-30 years constitutes long term, and a term in excess of 30 years and (perpetual) bonds and non-retirable stocks are indefinite (or extra-long term.) Because of the fairly low per capita income in China, the

yet immature secondary market, the people's limited knowledge about the financial market and its tools, and their investment psychology and so on, at present, we can only develop the intermediate-term fund market. We can extend the term of the bonds and issue corporate stocks only if the economy continues to grow, if we have a healthy set of laws, if the market is active, and if the people are psychologically inclined to invest.

Within the last 2 years, China has made steady progress with efforts to issue more diverse types of bonds. Since the resumption of the issuance of treasury bills in 1981 and the issuance of corporate bonds in 1984, between 1985 and 1987, a succession of financial bonds, bonds to finance the state's key construction projects, key enterprise bonds, and regional bonds have also been issued. This year, besides continuing the issuance of the existing types of bonds, and in accordance with the state's need to gather construction funds, basic construction bonds and state construction bonds for guaranteeing state key construction needs will also be issued. In addition, there will be Finance Ministry bonds to finance the deficit. Not only are there many different types of bonds, but the term of each type, the level and structure of interest rates, the way there are issued and redeemed, and whether and how they can be transferred are different, and different rules may apply. Some of these securities carry a 2-, 3- or 5-year term, or may even mature in 3 years and 4 months (the discount bonds issued by the Construction Bank, for instance.) Some bonds pay simple interest while others pay compound interest. (For example, the Bank of China and the Construction Bank have issued compound interest bonds.) The issue price of some bonds may be higher than their face value, but some are sold below par (the Construction Bank's discount bonds, for example). Some bonds can be bought and sold on the market 1 year after they are issued, but some are not transferrable (like the bonds issued by the Finance Ministry). In particular, on 21 April of this year, nationwide, seven pilot cities have begun to experiment with the buying and selling of treasury bills issued in 1985 and 1986 in the open market, paving the way for the opening of a secondary market. The introduction of new bonds and the opening of the exchange markets conform with the law of change, from simple to sophisticated, in the financial sector, and basically they satisfy the needs of the different kinds of investor.

Today, the development of the bond market is facing two obstacles. First, compared to the level of price increase, the return on bonds is low, or even negative in some cases. Therefore their issuance, especially the portion intended for the individual investors, is facing some difficulties. In particular, people are unwilling to invest in and purchase the relatively long-term bonds, forcing the issuers to shorten the term, and in effect, they are like certificates of deposit in large denominations and do not facilitate the steady gathering of mid- to long-term funds. Second, the tax on corporate bonds (including stocks) is too high, and meanwhile, treasury bills and financial bonds pay higher interest but are exempt from personal

income tax. This hampers the issuance of corporate bonds (including stocks). To solve the former problem, I suggest stabilizing product prices as much as possible. If it is not possible to keep the price level down in the near future, we should adopt similar methods other developing countries (such as Brazil, Argentina, Chile, and Mexico) have tried and issue index bonds to peg the interest on bonds to the price index to guarantee positive return on investment. In this way, with a decontrolled market, we can issue some relatively long-term (5 to 7 years) bonds, and this will facilitate the state's and enterprises' steady gathering of mid- to long-term funds. As for the second problem, we must start with the proper guiding ideology to motivate and nurture the financial markets. Corporate bonds and stocks must be given some tax advantages to facilitate enterprises' fund gathering. Judging by the direction of reform of the investment system, enterprises will become the primary investors, and to complement this change, we probably should extend more liberal terms to enterprises to encourage them to turn to the market instead of counting on the banks for funds.

Another component of the intermediate-term fund market is the stock market. Concurrent with developing the bond market vigorously, we should make an effort to develop the stock market. At present, stocks already issued make up only 1 percent of all financial assets. This is really the beginning of a beginning. Because stocks can be pledged or transferred but not discounted, they not only can solve enterprises' mid- and long-term fund source problem but also help increase supply and basically stabilize prices at the macroeconomic level. Funds that have found their way into the stock market basically circulate among the market participants, and unlike funds in the bond market, they cannot be cashed in at any time, nor can they force the banks to extend more loans because of issuance and redemption problems. Thus, from the standpoint of the central bank's monetary policy, in order to keep the money supply stable, we must promote the development of the stock market.

Today, in Guangzhou, among other cities, enterprises in the people's ownership system which by law are legal entities have been approved by the Guangzhou branch of the people's bank to issue stocks. We must further liberalize our thinking and muster more courage to make changes. Actually, if enterprises in the people's ownership system adopt the stockholding system and establish the general manager's responsibility system under the leadership of the board of directors, it will facilitate the reform of the enterprise management system. It can be more effective in allowing the general public who are stockholders to supervise enterprises and generate better use of funds than the plant manager responsibility system.

The issuance and exchange of stocks require the protection of a set of laws and regulations; otherwise stock issuance cannot continue and stock exchange will be

interrupted. These indeed have happened in some developing countries when they first developed their stock markets. If stocks cannot be traded, dividend payments alone cannot satisfy the investors whose goal is to reap short-term profits. It will exclude many small investors who do not have enough idle funds to make long-term investments. In China today, this will be equivalent to not developing the stock market at all. Since stocks cannot be cashed in, if restrictions are put on dividend distributions, it will limit their price spread in the exchange market and will turn them into financial assets similar to Britain's perpetual bonds, and they will not function to keep tab on the performance of enterprises which have issued the stocks. Therefore, to encourage companies to issue stock and trade them in the market, it is important that we enact laws and regulations, audit and verify businesses closely, distribute dividends honestly, and increase the price spread. At the same time, to consciously promote stock issuance and exchange, the state should give these securities some tax preferences, similar to what many developing countries have done.

3. Gradual, but prompt, decontrol of the interest rates is the key to promoting the development of the financial market. Artificially suppressing the bank's lending rate and the interest rates is a common practice in developing countries to hold down the financial sector. China is no exception. Although since 1979, we have been experimenting with the restructuring of the economic system, and interest on loans have been raised several times in the past 9 years, the interest rate level is still fairly low today. Interest on deposits in the banking system averages 3.79 percent, and the average loan rate is 6.85 percent. In addition, there are more than 10 kinds of preferential-term loan. They prove that past interest rate adjustments were nominal rather than reform-oriented adjustments of the interest rate structure and level. In recent years, the increase in the price level has exceeded the above interest rate levels. Obviously, those are negative interest rates, and they undermine attempts to launch fund lending and borrowing activities in the market and discourage investments in securities. To solve this problem, besides issuing index bonds, we must radically raise the interest level and then straighten out the market interest rate relations.

If previous price reform programs were lacking in any way, it was the failure to consider adjusting the interest rate level and structure at the same time prices were being adjusted, and so they were not perfect price reform programs. This is because interest is the price of money. Interest rate is inherently related to product prices. In view of the magnitude of today's price increases (including the magnitude of price adjustments), it is an opportune time to raise the level of interest rates significantly, or at least make a partial correction now rather than allow prices to rise year after year without doing anything about interest rates—this amounts to decontrolling prices while holding down the financial sector, which is one reason why price reforms have seldom been successful. We should thoroughly understand this matter now.

4. In order to promote the further development of the financial market, we must set up some essential market business and service institutions, like the aforementioned short-term financing companies, securities companies, enterprise credit rating companies, and financial consulting companies. First, to meet the needs of the further development of the short-term fund market, we must set up short-term financing companies. Second, to meet the needs of the development of the securities market, we must set up securities companies. The People's Bank can take charge and organize the right financial institutions to form these companies. They may buy and sell negotiable securities, issue and trade stocks on behalf of the clients, and safeguard their clients' securities and so on. The specialized banks have already set up some trust investment companies which also handle these operations, and some specialized banks have also established specialized securities companies. But we must develop and keep up with the ever increasing volume of transactions. Next, we should set up enterprise credit rating companies to evaluate the credit worthiness of enterprises. This is important in two respects: One, it puts into practice the principle of "selecting and nurturing the best" and facilitates the structural adjustment of credit funds and puts the banks' credit funds to better use. Two, it protects the interests of the investors in the securities market. At present, the issuance of stocks and bonds basically are examined and approved by the financial administration and management department of People's Bank of China. This is workable early on when the financial market has just been developed. But in the future, when more and more enterprises and financial institutions want to issue bonds and need feasibility studies, the financial management organ will be overwhelmed and may even make mistakes as a result. Therefore, we must set up enterprise credit rating companies under the supervision or guidance of the People's Bank of China. At first, the bank should be in charge, and when they have accumulated a certain amount of experience, these companies may operate independently under its business guidance. At present, Shenyang, Shanghai, Wuhan, and other areas have already set up credit rating organs. Some are directly organized by the People's Bank, others are independent. Things are looking good. This is a good way to unify efforts to make bank credits more market-oriented and the securities business more scientific. We must make these companies truly competitive, and hope that their work will reach a new standard. As for the economic, financial consulting companies, they can be independent or be a part of the specialized banks, the trust investment companies, the securities companies, or the financial companies. As the financial market develops, consultation about financial matters and the different credit circulation tools will become more important. The emergence of many financial consulting companies will be one of the conspicuous marks of the perfection of China's financial market.

5. In order to maintain a sense of continuity in the securities market, especially in the secondary markets,

nurturing institutional investors is critical. The thorough development of the financial market naturally will increase the variety and quantity of stocks and bonds, and the people will have more investment choices, but at the same time, the risk will increase, and an individual has limited ability and time to deal with these risks, thus increasing the cost of investment. This to a certain extent will diminish the people's investment enthusiasm and will undermine the further development of the financial market. Therefore, we should learn from the experience of other nations and pay attention to nurturing and creating different kinds of institutional investors. Besides banks, insurances companies, and trust investment companies, we can set up organizations similar to Brazil's "financial fund" via favorable tax terms, that is, put the tax-exempt money into a "fund" to be invested in the securities market and keep it away from the commodities market. We can also turn some of the existing mutual aid organizations in enterprises and institutional units into organizations similar to "investment clubs" in the United States, and by changing their functions, turn the mutual aid organizations into investment organizations as well. Of course, according to the different fund sources, we can set up fund organizations like pension funds or college and employment funds, or set up mutual funds which target the small investors. Mutual funds issue shares to the small investors and gather funds to invest in different kinds of security to get the benefit of large-scale investment and distribute the return among the mutual fund investors. As a result of all these, there will be more and more institutional investors in the market, and they will form a strong force and create their own market, and we can avoid the defect of lack of continuity which is typical if securities are issued for, and are traded by, individuals, or if individuals are basically the only participants in the market. We want to maintain a sense of continuity in the issuance and the exchange of securities.

6. We must coordinate the financial and monetary policies and let the two work together to promote the development of the financial market. The formation and development of the financial market are the responsibility not only of the central bank but also of the Finance Ministry. The financial market is essential not only to the monetary policy but also to the financial policy. A well-developed securities market has direct impact on the Financial Ministry's ability to issue government loans to finance unavoidable deficits. At the same time, a well-developed securities market also has direct bearing on enterprises' ability to raise capital either by issuing debt securities or capital stocks. The long-term fund market, in particular, will provide even more funds for basic constructions and for enterprise technological transformations and, at the same time, force enterprises to use funds more effectively. In the mid- to long-term, it will reduce the Financial Ministry's basic construction investment burden and enhance the efficiency of basic constructions.

To say that in the initial stage of China's financial market, the central bank must work a little harder and take on a little more responsibility, then to develop the financial

market, especially the securities market, the bank must cooperate with the financial ministry departments and the financial policy. As far as its monetary policy is concerned, the central bank can allocate some of its loan funds to the specialized banks, or allow the specialized banks to set aside a certain percentage, each, of their existing current fund loans and fixed fund loans and put them on the market either in the form of discounted notes, collateral notes, security backed enterprise bonds (including repurchase agreements.) On the other hand, enterprises should be allowed to issue short-term (1 year or shorter) bonds to supplement their circulating funds. At the same time, units which actively issue stocks and bonds in the market should be given a proportional share of stand-by credits; we need not grant all loans in the form of credit. In this way, the more profitable enterprises will issue stocks and bonds and obtain (or if they still have a shortfall despite the issuance of securities, that portion can obtain) stand-by loans and can continue to develop. Enterprises which cannot raise funds in the market and cannot issue stocks and bonds are probably, or basically, units with poor performance. They have no stand-by credit loans and must rely on government policy-type loans (relief-type loan funds) to survive. No doubt they should promptly switch to a different line of business or merge with another unit (sell their property right) or declare bankruptcy. In this way, the central bank's macroeconomic control is founded on the combination of credit mechanisms and market fund gathering activities, and the result will be even better. At the same time, this will organically integrate the track-changing of the banks' credit mechanisms, the promotion of the development of the securities market, and the structural adjustment of the economy.

To realize the above plans, we must coordinate the financial policies, especially the tax policy. This primarily means reducing or exempting tax on security investment earnings to encourage individuals or enterprises to invest in the market. Many developing nations have done so to promote the development of the capital market. In the short-run, government revenues may drop, but in the long-run, when the fund supply increases in the market, the central bank will be able to expand the volume of open market operations and in turn the government's share of gathered funds will increase.

Construction Bank President on Key Priority Projects Policy

*OW2201130389 Beijing XINHUA in English
0914 GMT 22 Jan 89*

[Text] Beijing, January 22 (XINHUA)—Some energy, transport and raw material projects will be suspended or postponed this year in a bid to make sure that the key construction projects in these sectors will be definitely guaranteed, a senior bank official said here today.

Zhou Daojiong, president of the People's Construction Bank of China said: "We will revise the original plan and concentrate our efforts to ensure the construction of the state key projects so as to shorten construction period." "Some industrial production projects will be also suspended or postponed under the new scheme," the president said at a meeting, which was attended by bank officials from across the country.

He added: "There will be a big cut in the investment in the social fixed assets this year, involving not only capital construction projects but also technological revamping projects."

The central government called on localities to take tough actions cut construction of non-production projects like hotels and office buildings.

Addressing the meeting, the president said, "Work to improve the economy just started. We must be fully aware of its difficulties and necessities."

Otherwise, he warned, "We will fail to bring investment scale under control, to readjust investment composition and achieve good investment results."

In the past few years, some state key projects were postponed because of lack of funds and construction materials. There is no notable rise in investment in the energy sector, and what is more, the investment in transport even decreased.

China has achieved initial results in tightening spending since last September, but there has not been a fundamental change in improving the overheated economy.

About 200,000 projects are under construction nationwide at present, involving a total investment of 1300 billion yuan, he noted.

The number of projects the government has decided to suspend is only 10,000, accounting for 3 percent of the total only.

Although the government repeatedly urged to tighten control over construction projects, more than 40,000 projects get started every year.

Thus, he stressed, "We must make big efforts and take definite act to cut the capital construction projects and cool down the overheated economy."

Loans to Rural Enterprises To Be Halved
OW2201083289 Beijing XINHUA in English
1534 GMT 21 Jan 89

[Text] Beijing January 21 (XINHUA)—Bank loans to rural industry, which has been one of China's fastest-growing sectors, are to be cut in half, a bank official said today.

Wang Jingshi, deputy governor of the Agricultural Bank of China, told XINHUA that banks and credit cooperatives will grant more loans to agriculture but will cut by half loans to rural enterprises.

Wang said that credits for rural industry will drop from 14.7 billion yuan last year to 7.1 billion yuan this year.

Some rural enterprises may be forced to cut back or shut down production and others may have to switch production, Wang said.

Wang said the bank will introduce a tougher credit policy. It will stop granting loans to small textile mills, woollen mills, oil refineries, aluminium works, cigarette-making factories and liquor distilleries.

He said banks will not grant loans to enterprises which run at a loss, speculate in raw materials or which invest more in fixed assets.

The bank policy is to support profitable enterprises and restrict unprofitable ones, the deputy governor said. The bank will support enterprises which are well run and which make profits.

The bank aims to make the best use of its 85 billion yuan of outstanding loans, he said.

In the past few years, the agricultural bank and credit cooperatives have lent 85.1 billion yuan to rural industry. The number of rural enterprises has grown to 1.6 million, with a total labor force of 47 million. This will cut 12 percent of the total rural labor force.

The assets of rural enterprises have reached 250 billion yuan, including 160 billion yuan of fixed assets.

Bankers said that rural enterprises have played an important role in promoting China's agriculture, increasing supplies, earning hard currency, increasing farmers' income and revitalizing both urban and rural economies.

But they said that there have been some problems with rural enterprises such as over-rapid development, low efficiency and poor management and over-indebtedness.

Interest Rates for Short-Term Interbank Loans
HK2401124589 Beijing CEI Database in English
24 Jan 89

[Text] Beijing (CEI)—Following is a chart of the interest rates for short-term interbank loans in a number of money markets of China.

City	Date	Number of Transaction	Volume of Transaction (10,000 yuan)	Period Transaction (days)	
				Longest	Shortest
Ningbo	Dec 27-Jan 8	14	6050	36	11
Hohhot	Jan 1-7	2	1200	6	4
Shanghai	Dec 28-Jan 3	8	22100	4	1
Nanjing	Jan 1-3	2	3000	5	1
Xian	Jan 5	8	3100	60	10
Shenyang	Dec 30-Jan 5	17	4500	60	20
Hefei	Dec 14-27	7	1850	180	20
Shijiazhuang	Jan 3-10	7	1100	60	20
Chendu	Dec 29-Jan 5	9	14700	90	2
Wuhan	Jan 4	3	650	47	31
Dalian	Jan 3-10	14	3000	30	7
Inner Mongolia	Jan 1-4	2	1000	10	2
Tianjin	Jan 3-7	7	3100	20	3

City	Minimum Interest Rate per 1000		Maximum Interest Rate per 1000		Weighted Average Rate per 1000	
	Current Transaction	Last Transaction	Current Transaction	Last Transaction	Current Transaction	Last Transaction
Ningbo	7.80	7.20	8.70	8.70	7.82	7.52
Hohhot	7.20	7.20	7.20	7.20	7.20	7.20
Shanghai	7.20	7.35	7.50	7.80	7.35	7.50
Nanjing	6.90	7.50	6.90	7.50	6.90	7.50
Xi'an	6.90	6.90	8.10	9.00	7.70	7.20
Shenyang	6.90	6.45	7.80	8.10	7.31	7.33
Hefei	6.30	6.30	8.55	7.30	7.19	7.535
Shijiazhuang	7.50		8.10		7.80	
Chendu	6.60	7.20	7.20	7.50	6.90	7.32
Wuhan	7.80	6.90	11.16	9.90	9.268	8.554
Dalian	8.10	6.15	6.15	6.15	7.20	6.15
Inner Mongolia	6.90	7.20	8.10	8.10	7.50	8.025
Tianjin	7.14	7.20	7.80	7.92	7.35	7.38

INDUSTRY

Guangxi Reports Industrial Progress

HK0902012989 Nanning Guangxi Regional Service
in Mandarin 1100 GMT 8 Feb 89

[Excerpts] According to data supplied by the regional statistics bureau, output value of industry at and above township level in Guangxi last year was 18,182 million yuan, a rise of 14.9 percent over 1987. Industrial economic returns also improved somewhat. [passage omitted]

Growth in collective-ownership industry exceeded that in industry under whole-people ownership. Output value of collective industry was 4.08 billion yuan, a rise of 25.6 percent over 1987. This included a rise of 32 percent in township-run industry. This greatly exceeded the 11.4 percent growth rate of industry under whole-people ownership.

Light industry developed faster than heavy industry. Output value of light industry during the year was 10,861 million yuan, a rise of 18.5 percent over 1987. Output value of heavy industry was 7,321 million yuan, a rise of 9.9 percent. [passage omitted]

Shanghai Industrial Production Growth Slackens

HK0902132389 Beijing CEI Database in English
9 Feb 89

[Text] Shanghai (CEI)—The growth of industrial production in Shanghai, China's biggest industrial city, has slackened in the first month of 1989.

Total industrial output value was 8.47 billion yuan, only 2.5 percent more than the same month of last year.

Chemical fertilizer and other products for agricultural production increased 63.7 percent.

Light industry increased by 2.9 percent and heavy industry increased by 2 percent. Agricultural films increased by 16.7 percent, and tractors by 10 percent. the production of bicycles, wrist watches, color TV sets and washing machines also increased.

SMALL-SCALE ENTERPRISES

Bank Official on Expected Effects of Tightened Credit Policy

40060210a Beijing JINRONG SHIBAO
in Chinese 7 Dec 88 p 1

[Article by Nong Jin 6593 3160: "Tightening Loans To Urge Township Enterprises To Readjust Production Structure and Raise Efficiency"]

[Text] Dai Xianglong [2071 4161 7893], vice president of the Agricultural Bank of China, answering a question on whether continuing the tight credit policy in the next year will adversely affect the development of township enterprises, told reporters a few days ago that the tightening of loans will undoubtedly have a restraining effect on the rapid growth of township enterprises, but it will goad them into readjusting their production structure, improving their economic performance, and developing steadily in the course of improvement and consolidation.

Seven years ago, loans extended to township enterprises by the Agricultural Bank and credit cooperatives were increasing at an average annual rate of 36 percent, higher than the growth rate of their output value. Although control has been tightened this year, loans to township enterprises are still expected to increase by more than 14 billion yuan, or more than 20 percent, over the last year. The credit balance at the end of the year will amount to 86 billion yuan. However, township enterprises are growing too fast, exceeding society's ability to supply funds and raw and semifinished materials. At the same time, their product mix is rather irrational, which affects their own performance. To promote the sound development of township enterprises and increase the proportion of agricultural loans, the Agricultural Bank will continue to tighten credit to township enterprises in the coming year.

Dai Xianglong expressed the following views.

1. It is necessary to reduce the township enterprises' investment in fixed assets. In the past 2 years, investment by township enterprises in fixed assets has increased by 20-30 billion yuan a year, of which about 25 percent were loans from the Agricultural Bank and credit cooperatives. The overall money supply shortage will become even more acute in the next year. Therefore, township enterprises in all places must reduce investment in fixed assets. Except for construction projects which are already under way and must be continued, no new projects should be started as a principle.

2. Serious efforts should be made to restructure the loans to township enterprises. At present, loans extended by the Agricultural Bank and credit cooperatives to tertiary enterprises and enterprises which have been closed down or suspended total more than 15 billion yuan. Through consolidation, mortgage, lease, merger, joint operations, and liquidation of assets, one-third of the loans can be recovered and used to support industries whose development has been given priority by the state. Active support should continue to be given to export and foreign-exchange-earning enterprises, agricultural products processing enterprises, and enterprises producing goods for daily use which are in great demand, according to their credit conditions.

3. The Agricultural Bank and credit cooperatives should cooperate closely with enterprises and the departments in charge of them to help the enterprises strengthen management and achieve better economic results. The payable accounts of the township enterprises total about 20 billion yuan, and they also have large inventories. By settling payable and receivable accounts, minimizing overstocking, and speeding up capital turnover, the shortage of funds can be alleviated, and funds can be used more efficiently.

Township Enterprises in Beijing Face 'Three Major Problems'

40060210b Beijing JINRONG SHIBAO
in Chinese 7 Dec 88 p 1

[Article by staff reporter Wei Zhaogui 7614 0340 6311: "Township Enterprises in Beijing Are Faced With Three Major Problems"]

[Text] With the reforms and delegation of authority to lower levels taking place in the state enterprises in Beijing, especially since they began to organize work in an optimum way, the township enterprises are losing the advantages they have enjoyed in the flexibility of their management mechanism. They are also affected by objective factors such as shortage of raw and semifinished materials. At present, township enterprises are generally faced with problems. People associated with them think that to solve their problems the township enterprises should further improve their management mechanism and operate as groups.

A recent survey of the economic development of townships on the outskirts of Beijing, conducted by a department concerned, indicates that at present the township enterprises are faced with three major problems.

1. Raw and semifinished materials are in short supply, particularly iron and steel materials. Rapidly rising prices are also making things harder for the town and township enterprises. According to initial statistics of Jiadao Township, under similar conditions, the capital outlays of township-run enterprises from May through August were 5.13 million yuan more than in the previous 4-month period owing to increased prices of raw and

semifinished materials. In Liangxiang Town, 31 village-run factories were set up this year, and 6 have already failed. The township enterprises are basically on their own in getting needed raw and semifinished materials. As these materials are in short supply, they are not only expensive, but hard to get. For example, it was a buyers' market for cement, coal, and so forth in the first quarter, but it turned into a sellers' market in the third quarter. Among all raw and semifinished materials, rolled steel is the most scarce. The Liangxiang Town Steel Window Plant ordered 200 tons of strip steel from Jiangsu in August at a price of 1,450 yuan per ton. When the plant sent a man to Jiangsu to take delivery, the price rose to 1,600 yuan per ton. The man sent a telegram to the plant for instructions, and 2 days passed, during which the order was bought by someone from Guangzhou at 1,800 yuan per ton.

2. The reinvigorated state enterprises have begun to pose a threat to the township enterprises. They no longer provide the township enterprises with goods, materials, and technologies as they used to do. They have begun to use the surplus manpower from improved work organization to develop new products and expand production and operations and compete with the township enterprises for markets and raw materials.

3. There is a serious shortage of development funds. The township enterprises are generally without a solid foundation, have little to start with, and often run short of working funds. Their financial straits often affect normal production and make technological innovation very difficult, let alone starting new projects. Driven by the desire to keep up with their peers, some township enterprises pay high bonuses and wages despite low production and accumulation. Thus, the financial growth of the enterprise falls behind the rising income of its employees, which is bound to affect the enterprise's continued development.

In the face of these problems, where is the way out for the township enterprises? People associated with the enterprises think that first it is necessary to change the way each of them is fighting for its own survival, form enterprise groups, and take the road of group operations. In view of the fact that they must now compete with state enterprises, the township enterprises should merge into enterprise groups by trade to expand their production scale, serialize their operations in specific fields, and make their products more competitive against enterprises in other areas as well as state enterprises. Second, instead of looking everywhere for joint ventures, the township enterprises should link up with and rely on large enterprises and units to increase their own capacities. They should take the initiative to enter into joint ventures with large enterprises, research institutes, and universities and colleges, which should provide funds, equipment, and technologies, while the township enterprises contribute plant sites and manpower, sharing profits and risks. Third, the unitary operations should be replaced by "mixed" stock enterprises to further

improve the management mechanism. In the process of the present macroeconomic readjustment, consideration should be given to turning the village enterprises and stores into private business to serve as a necessary supplement to the collective economy. It is also necessary to develop step by step "mixed" stock enterprises with shares owned by the state, collectives, and individuals.

FOREIGN TRADE, INVESTMENT

Bank Supports Joint Ventures

OW1201201989 Beijing XINHUA in English
1455 GMT 12 Jan 89

[Text] Beijing, January 12 (XINHUA)—Despite the nationwide austerity program, the Bank of China (BOC) today promised to help develop foreign-funded enterprises, joint ventures and cooperative undertakings with more loans.

BOC Governor Wang Deyan said, "Last year saw a big growth in loans to these undertakings and we will try to maintain this upward trend this year."

He added, "We will give them support not only in credits and loans, but also in leasing and consultancy services. Priority will be given to those projects which use advanced technology, produce better economic results, promote exports and develop the national economy."

"The bank will also give priority to solely foreign funded enterprises, existing units which use foreign funds, and joint ventures with advanced technology and management skills."

The bank will also help carry out the coastal economic strategy in the coastal areas by providing more loans and floating capital to enterprises which undertake processing with supplied materials and manufacture for the international market, he said.

Last year the bank provided 2.24 billion U.S. dollars in foreign currency loans and 3.88 billion yuan in rmb loans to foreign-funded enterprises, increases of 1.2 and seven times compared with the year before.

According to BOC, it has already provided loans to 2,904 foreign-funded enterprises, a quarter of the total in China.

The bank also made a survey last year, which showed that 41.3 percent of foreign-funded enterprises are profitable, and only 8.9 percent of them have difficulties.

By the end of last year, the number of foreign-funded enterprises approved by the Chinese Government grew to 14,000. Of them 5,000 have gone into operation.

\$2 Billion Invested in Foreign-Based Joint Ventures

HK1901100089 Beijing CHINA DAILY
in English 19 Jan 89 p 2

[By staff reporter]

[Text] China had invested \$2 billion in 553 foreign-based joint ventures, co-operative projects and wholly Chinese-owned enterprises by the end of last year, according to the Ministry of Foreign Economic Relations and Trade (Mofert).

These investments are in industrial production, agriculture, resource development, tourism, resource development, tourism, transport, banking and insurance.

Last year, China opened an unprecedented 168 businesses abroad with an investment of \$220 million. In 1987, just 124 such enterprises were opened.

Chen Yongcai, a senior Mofert official in charge of foreign economic co-operation, said that the vast majority of these Chinese businesses are doing well.

"And we're making changes to a few enterprises which aren't running well," he said.

He said that last year the number and scale of Chinese enterprises abroad were both bigger than ever. The businesses are mainly in industrial and agricultural production and resource development.

Chinese businesses abroad involved in industrial and agricultural production and the processing industry total 212, he said.

While many Chinese enterprises are in Asian countries, many others have made their way into more developed countries. For example, the China International Trust and Investment Corporation (Citic) owns a timber company in the United States, a pulp mill in Canada, and an aluminium smelter in Australia.

China now places its investment emphasis on developing countries. While promoting South-South economic co-operation, China also seeks to make more returns with less investment.

Several thousand Chinese technicians and management personnel work in these overseas businesses, which have helped to provide resources that China lacks and promote the export of Chinese products and technology.

Chen said that China did well in carrying out its contracts for foreign projects and services last year.

In 1988, 70,000 Chinese workers finished contracts worth \$1.8 billion and achieved a business turnover of \$1.2 billion.

Selection by Need for Foreign-Funded Projects

HK2701154589 Beijing CEI Database in English
27 Jan 89

[Text] Beijing (CEI)—China will give priorities, in its approving procedures, to those foreign-funded projects urgently needed by its national economic development, according to authoritative sources from the central government.

The priority projects include:

Projects which produce export products with imported raw materials and products produced with domestic materials but over 70 percent of them are exported;

Projects which can bring in advanced technology and scientific managerial expertise and which will help in the readjustment of China's industrial structure and China's scientific and technological progress;

Projects which can carry out technological transformation of the existing light industrial, textile, and machine-building enterprises, and projects which can develop intensive processing and new products;

Projects which require high technology;

Projects for energy, transportation, and basic raw material industry.

The projects that failed to attain priorities include:

Non-productive projects, especially office buildings, auditoriums, and hotels;

Projects with low-technology, poor economic results, high raw material consumption, and high pollution;

Projects with conditions attached to the export of their products and projects within the state-unified planning.

Coastal Raw Materials Exhibit Opens in Hong Kong

OW2801231789 Beijing XINHUA in English
1637 GMT 26 Jan 89

[Text] Hong Kong, January 26 (XINHUA)—The first trade exhibition on raw materials and processing opportunities in Chinese coastal areas opened here today.

The week-long event is jointly organized by the China Council for Promotion of International Trade (CCPIT) and the Hong Kong Trade Development Council (HKTDC), with sponsorship of eight other Chinese and Hong Kong organisations.

Over 200 companies from eight coastal provinces and cities, including Guangdong, Fujian, Zhejiang Provinces and Shanghai, are participating in this exhibition.

Products on display include raw materials and manufactures ranging from machinery, metals and minerals, chemicals, electronics, light industrial products and textiles.

Cereals, oils and foodstuffs and animal by-products are key materials to Hong Kong's export industries.

Supply of raw materials and processing services by the Chinese mainland is an important impetus to Hong Kong's industrial development.

Recent labor shortages and rising production costs in Hong Kong have fostered these economic relations, with increasing number of Hong Kong manufacturers shifting their processing and assembly activities across the border, according to organisers of the event.

Country Plans No Silk Price Increases
OW2501200289 Beijing XINHUA in English
1310 GMT 25 Jan 89

[Text] Beijing, January 25 (XINHUA)—China will not raise the prices of silk products, despite the fact that demand is growing on the international market, a Chinese trade official said here today.

"The policy of stabilizing prices will promote consumption and enhance customers' confidence," said Huang Jianmo, president of the China National Silk Import and Export Corporation.

He predicted a 10 percent growth in demand since silk is becoming more popular on the international market.

He noted that silk fiber accounts for only 0.2 percent of the total fiber consumption in the world. "There will be not much effect on silk demand even if the Chinese economy slows down its growth or suffers a short-term recession," he said.

This year, he added, China will continue to improve the quality of its silk products and expand exports.

Last year China exported silk worth 1.65 billion U.S. dollars, 23.2 percent more than in the previous year and a new record.

Foreign Investment Sought for Coal Mines
HK2501143589 Beijing CEI Database in English
25 Jan 89

[Text] Beijing (CEI)—China's coal industry is seeking foreign investment to construct some key coal mines in the eastern part.

The first mines planned include four deep ones—Jining No.2, Jining No.3, Fucun and Xiesi in Shandong Province. They need a total investment of 3 billion yuan (about 700 million U.S. dollars).

The total annual industrial and agricultural output value in east China constitutes 74.5 percent of the country's total, while its coal output only 34 percent, thus bringing about a chronic coal shortage.

China's coal industry departments plan to absorb foreign investment in the construction of new mines because of insufficient funds provided by the state.

Provincial Export Commodity Trade Fair Ends
SK2901075589 Harbin Heilongjiang Provincial Service
in Mandarin 2200 GMT 27 Jan 89

[Text] Great achievements were made at the Heilongjiang Provincial Export Commodity and Economic and Technological Cooperation Trade Fair which ended on 27 January. As of 26 January, the spot exchange transaction volume reached \$52.2 million, which was 174 percent of the planned transaction target for this trade fair. A total of 13 economic and technological cooperation contracts were signed, of which 10 were aimed at creating foreign exchange through exports, and 3 concerned advanced technology. Foreign capital of \$21.36 million was used. The border trade transaction volume with the Soviet Union reached 122.49 million Swiss francs. Economic and technological cooperation items with the Soviet Union through barter trade numbered 14, involving 50.06 million Swiss francs.

This trade fair included both spot exchange trade and barter trade, the first of its kind in our province. Of the 997 people of 417 firms from 21 countries and from Hong Kong and Macao attending the trade fair, most of them were experienced traders from Japan, the United States, Australia, France, Singapore, Hong Kong and Macao, and some new traders from the Soviet Union. During this trade fair, the Soviet traders were most conspicuous. A total of 368 Soviet traders came successively to the trade fair. The achievements in the Soviet border barter trade were noticeable.

Combining economic relations with trade, technology and tourism constituted another distinct feature of this trade fair. According to statistics, 139 foreign tourists and guests attending the ice-snow festival participated in the trade fair.

The trade fair set up a science and technology hall to display more than 3,000 new technological products, which helped to expand the export and exchange of our province's new technological products.

Despite the fact that we had not invited domestic guests to the trade fair, more than 170 persons from 18 provinces and cities came to our province to attend the trade fair. Some of them provided goods and some directly cooperated with enterprises which have the right to export. This helped to promote the work of developing cooperation with the south and opening up the north to the outside world.

Anhui To Hold Foreign Economic Trade Talks
OW3101212489 Beijing XINHUA in English
1556 GMT 31 Jan 89

[Text] Hefei, January 31 (XINHUA)—Eastern China's Anhui Province will hold its fifth foreign economic trade talks in the province's capital city of Hefei between March 4 and 13 this year.

An official organising the talks disclosed today that more than 100 items dealing with Sino-foreign technical cooperation will be discussed. Half of them will be aimed at soliciting foreign investment in forms of cooperative management, joint production, compensation trade and leasing.

He said that of the other half, 20 percent of the items will be on the import of technical facilities and 30 percent on the export of technology.

The official said more than 1000 kinds of products, including textiles, machinery and electronics, garments and handicrafts, will be displayed during the talks. Of these, 25 percent will be newly developed products.

In 1988, the provincial export volume reached 560 million U.S. dollars. At present, Anhui has established trade relationships with more than 100 countries and regions.

Foreign Investment Increases in Guangzhou
HK2501145389 Beijing CEI Database in English
25 Jan 89

[Text] Guangzhou (CEI)—Guangzhou has signed 307 contracts involving 408 million U.S. dollars of foreign investment in 1988, marking a 69.39 percent increase over the previous year.

91.86 percent of the investments are in productive projects. 29 of the contracts involve more than five million dollars and nearly half of the 29 projects are technological transformation of existing enterprises.

Development of Foreign Trade in Hebei
HK2701154189 Beijing CEI Database in English
27 Jan 89

[Text] Shijiazhuang (CEI)—The foreign trade volume in Hebei Province has increased by 100 million U.S. dollars per year since foreign trade ports were set up in the province in 1975.

The export volume of the province in 1988 reached 1.5 billion U.S. dollars, overfulfilling the yearly quota by 24 percent.

Exports in 1988 rose to 900 kinds, and 45 of them earn more than 3 million U.S. dollars each. The exports that earn more than 10 million dollars each include cotton, cotton cloth, clothing, maize, chestnut, carpets, pears, soybean, porcelain, prawns, and peanuts.

Zhangjiakou, Tangshan, and Shijiazhuang have become production bases for exports in the province. The province has established trade relations with 120 countries and regions.

Hebei's Exports of Sundry Goods Top \$1.2 Billion
SK3101130189 Shijiazhuang HEBEI RIBAO
in Chinese 12 Jan 89 p 1

[Excerpts] Despite unduly high prices, sharp competition, and insufficient supply of goods, our province made a breakthrough in foreign trade in 1988. After effecting substantial increases in the export of sundry goods for a few years, our province once again stepped on a new stage in 1988. The total volume of sundry goods exports amounted to \$1.202 billion in 1988, fulfilling the state-assigned target by 138.75 percent, and showing an increase of 11.91 percent over the previous year. [passage omitted]

Since the beginning of 1988, on the basis of summing up experience gained in promoting sales on the international markets, our province has paid attention to developing enterprises and establishing fixed sales organs abroad. Our province so far has established sales organs in the Federal Republic of Germany, Libya, Bahrain, Kenya, Japan, Australia, and 10 other countries, thereby providing relatively stable sales channels and playing an active role in expanding the export of our products. [passage omitted]

Our province sponsored export commodities fairs in 1988 in the Netherlands and Italy and strengthened sales through the method of "sending our our groups and inviting in foreign traders." During the year, our province sent a total of 404 groups and teams which included 1,181 persons, to conduct investigations and sell commodities in more than 60 foreign countries, including the United States and the Soviet Union. At the same time, the province invited 352 groups of foreign firms which included 810 persons from 31 foreign countries to hold trade talks with our province. Last year, the volume of transactions amounted to \$1.49 billion, thus laying a solid foundation for fulfilling the annual export task.

Hubei Increases Use of Foreign Funds
OW2701013289 Beijing XINHUA in English
1036 GMT 26 Jan 89

[Text] Beijing, January 26 (XINHUA)—Central China's Hubei Province approved 53 joint ventures in 1988, equal to two-thirds of the total approved in the past nine years.

The newly-approved joint ventures involved total foreign investment of 168 million U.S. Dollars, the overseas edition of PEOPLE'S DAILY reported today.

Thirty-seven new businesses were also added to the provincial roster last year—creating 3.5 times more investment than in 1987, the paper quoted an official from the provincial foreign economic relations and trade department as saying.

At present, 85 of the 126 joint ventures in the province have gone into production and 9 percent of them have shown steadily improving profits, the official said.

He revealed that Hubei will sponsor its second economic trade talks in the capital city of Wuhan in March.

New co-operative projects will focus on transportation, energy, telecommunications and raw materials.

Hunan Maintains 119 Foreign-Invested Enterprises

HK0302133389 Beijing CEI Database in English 3 Feb 89

[Text] Changsha (CEI)—The number of Hunan Province's foreign-invested enterprises has reached 119, and 50 of them are operating.

By the end of last November the province had signed agreements with foreign businessmen on running 110 projects, with contracted foreign investment of 54.68 million U.S. dollars. Twenty of the projects were joint or cooperative ventures.

Last December the province sponsored its first trade talks in Hong Kong during which more than 460 projects were offered for foreign investment. Agreements were reached on 80 projects, involving 80 million U.S. dollars in foreign investment. Import and export transaction worth 20 million dollars was concluded on the occasion.

Foreign Trade Increases in Inner Mongolia Pilot Zone

HK2601105189 Beijing CEI Database in English 26 Jan 89

[Text] Hohhot (CEI)—Hulun Buir League, a pilot zone in Inner Mongolia Autonomous Region in restructuring economy, has made marked progress in developing trade relations with the Soviet Union, Mongolia and the eastern European countries.

The league has so far signed contracts of barter trade worth 45 million Swiss francs, and its cash trade volume reached 5 million U.S. dollars. It has purchased 110-million-yuan goods for export, and has cooperated in 154 projects with other domestic partners. It has also

introduced 150 million yuan funds. With 5 five leagues and cities contiguous to the Soviet Union and Mongolia, it has a borderline of 1,700 kilometres. [sentence as received]

70 agreements and contracts have been signed between the league and the Soviet Union, and the cooperation with Mongolia in trade, economy and technology is well under way. Its cash trade with Japan and Hong Kong is going on smoothly.

The league is also cooperating with the companies from the united States, West Germany, Denmark, Holland and Britain in producing liquid ethyne, reciprocating harvesters, potato slack and quality milk powder.

Jiangsu Rural Firms Sets Up Foreign Joint Ventures

HK2701153989 Beijing CEI Database in English 27 Jan 89

[Text] Nanjing (CEI)—The township enterprises in Jiangsu Province had established 125 joint ventures with foreign businessmen by the end of last year. Eighty-four of them were set up in 1988, constituting 34 percent of the province's newly established enterprises.

Jiangsu Province ranks first in the development of township enterprises in China. The industrial output of its township enterprises constitutes 40 percent of the province's total. The joint ventures run by township enterprises and foreign businessmen involve light, textile, chemical, metallurgical, energy and machinery industries. Most of them are of medium or small sized.

Silk Exports From Jiangsu Province Expected To Increase

HK0102135989 Beijing CEI Database in English 1 Feb 89

[Text] Nanjing (CEI)—Jiangsu Province, China's biggest silk exporter, plans to bring its silk export to 370 million U.S. dollars in 1989, 11.7 percent higher than the 334 million of 1988.

Of the total export, there will be 45 million meters of pure silk, silk garment at the value of 33 million dollars, and embroidery goods at the value of 7 million dollars.

The increase is due to the estimate of state purchases of 85,000 tons of silk cocoons this year.

Shanghai Eyes World Garment Market

OW2901035389 Beijing XINHUA in English 1455 GMT 26 Jan 89

[Text] Shanghai, January 26 (XINHUA)—At an international fashion festival held in Hong Kong recently Shanghai's garments, used to being left out in the cold, were well received.

A municipal official in charge of the garment industry said Shanghai's garment industry has always paid great attention to the application of the lumest [as received] technology. However, in the mid-1960s, the city turned out only tunics in blue, white, grey and yellow.

Although it began to catch up with the outside world in the early 1970s, its garments were still regarded as old-fashioned.

But, the official said, as a result of timely collection of information from markets at home and abroad, Shanghai's garment varieties and patterns are approaching the latest international trends.

People's attitudes have changed with the open policy and the national reform over the past ten years, and they spend more on dressing, the official said.

While buying a woolen overcoat worth more than 1,000 yuan at a department store, a customer complained of the high price.

But she said: "It is worth buying so long as I am satisfied with it and hear others admire it."

The official said even people with little money and old people are eager to keep up with the fashions.

He said, to compete on the international market, Shanghai has upgraded the technology of its garment industry and expanded production facilities. At present, the city has more than 1,000 garment designers, whose designs have won prizes at home and abroad.

In addition, the city's fashion model teams have travelled to European, American and Asian countries to show off Shanghai-made garments.

Technological Exports From Shanghai Quadruple
OW0102152289 Beijing XINHUA in English
0700 GMT 31 Jan 89

[Text] Shanghai, January 31 (XINHUA)—Shanghai, China's leading industrial center, exported technological products worth more than 100 million U.S. dollars last year, four times more than the previous year.

A municipal government official said the city exports a wide range of technological products including equipment for pharmaceutical production, sophisticated instruments and products for the light and textile industries.

The official said the increase was due to better quality products and more attention being paid to the needs of customers.

A number of Shanghai's institutions have set up technical and trade centers and have participated in sales exhibitions abroad.

Tianjin's Foreign Investment Increases
HK2701153789 Beijing CEI Database in English
27 Jan 89

[Text] Tianjin (CEI)—Construction of 94 new projects began last year in Tianjin with a total investment exceeding 200 million U.S. dollars including 91.73 million dollars of foreign investment.

By the end of last year Tianjin had approved 324 foreign-funded enterprises with a total investment of 740 million dollars including 334 million dollars of foreign investment.

Of the total enterprises 165 were put into operation and the sales turnover reached 1.147 billion dollars, up 184 percent over 1987.

Tibet Border Area Develops Foreign Trade
OW2501194389 Beijing XINHUA in English
0918 GMT 25 Jan 89

[Text] Lhasa, January 25 (XINHUA)—The total foreign trade volume of the border areas of the Tibet Autonomous Region reached over 100 million yuan in 1988, 15 percent more than 1987, and an all-time record since border trade resumed in 1984.

Today 27 trade centers are operating in the border areas, including three large centers at Changmu, Jilong, and Pulan.

Major exports include wool, sheep, and agricultural products.

Major imports include cloth, brown sugar, rice, and flour.

Foreign inhabitants of the border area can enter Tibet to a distance of 30 kilometers for cash transactions and barter trade.

Border trade will continue to develop rapidly this year, according to an official from the region's economic trade department.

Zhejiang Contracts More Labor Service Abroad
HK0902132589 Beijing CEI Database
in English 9 Feb 89

[Text] Hangzhou (CEI)—Zhejiang Province contracted 27 projects abroad last year, involving a contracted volume of 12.65 million dollars.

These contracts include housing, hydro-power, fishery, agricultural, medical, machinery, textile, and electronic projects, scattered in 20 countries and regions including Japan, the United States, Federal Germany, Singapore, Australia, Iraq, Morocco and Fuji.

The business volume of these projects reached 32.4 million U.S. dollars, or 85.7 percent more than 1987.

ECONOMIC ZONES

Hainan Governor Welcomes Foreign Investment
OW2901122889 Beijing Domestic Service in Mandarin
1030 GMT 23 Jan 89

[Text] Hainan Province welcomes multinational corporations and major consortiums to come to Hainan and invest in large development projects.

In explaining this idea, Liang Xiang, governor of Hainan Province, said recently: The idea, the result of nearly a year of studying, has been presented as a new way to develop and build up the great Hainan special economic zone. Since the announcement last year of the establishment of Hainan Province, it has proposed a principle stressing overall planning, selecting key locations for development, spreading their experience into the whole areas, and stressing results. The province has encouraged foreign firms to begin with the coastal region and to contract whole areas for comprehensive development of the local economy. The idea has attracted a great number of foreign investors. At present, the number of joint ventures, cooperative enterprises, and wholly foreign owned enterprises has reached 440 with a total contract investment of over 700 million yuan in renminbi as well as \$300 million in foreign exchange.

Major projects with foreign investment include a 250,000-mu shrimp-breeding farm built by Thailand's (Chengda) Consortium, a 250,000-KW second-phase project of the (Mazun) Power Plant to be built by the Hong Kong-Macao International Investment Corporation, and others. Some of these projects have already started, while others are about to be put in production.

To accelerate its pace of development and construction, Hainan Province will double its efforts this year to attract major foreign consortiums to build large key projects. The emphasis will be on such key projects as airfields, highways, power plants, and harbor communications.

LABOR

Trade Union Leader Urges Unity With Workers
OW0302014189 Beijing XINHUA in English
1511 GMT 2 Feb 89

[Text] Beijing, February 2 (XINHUA)—Entrepreneurs should unite with and rely on workers, a trade union leader said here today.

Ni Zhifu, president of the All-China Federation of Trade Unions, said only when entrepreneurs regard workers as the masters of the enterprise can the enterprise be run well.

Ni called today on the relatives of Zhang Binggui, a model assistant of the Beijing Wangfujing Department Store, and on Shi Chuanxiang, a model janitor of the capital.

He said: "Zhang is the model Chinese worker. His highly developed spirit of service to customers should be widely emulated."

Guo Chuanguo, manager of the department store where Zhang worked, said several of Zhang's apprentices were doing a good job. The store offered more than 32,000 varieties of goods, and last year, the sales volume topped 529 million yuan.

Zhang Binggui died in 1987. Last September, the department store erected a bronze bust of him in front of the store.

POPULATION

Report on Couples Who Flee From One-Child Policy

HK2501055189 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 1402 GMT 20 Jan 89

[Report: "Couples with More than One Child Seek Shelter Along Borders of Hunan, Hubei, Sichuan, and Guizhou"]

[Text] Beijing, 20 Jan (ZHONGGUO TONGXUN SHE)—The 11 counties and cities along the borders of Hunan, Hubei, Sichuan, and Guizhou have become shelters for "couples with more than one child." More than 9,700 people with more than one child have gone there in order to escape from the one-child policy for family planning. They generally have 3 to 8 children.

Of the 6,000 households coming from other areas to Jishou, the capital city of Xiangxi Prefecture, more than 800 have come under the pretence of doing business in order to escape from the family planning policy.

In Liye, a town of Longshan County in the boundary area of Hunan and Sichuan, more than 200 people have come from other areas to escape from the family planning policy. A peasant from Daxi Township of Youyang County, Sichuan Province, came to Liye in 1985 when she had two daughters. In the following year she had another daughter, and last year she gave birth to yet another baby girl. She said: "I will continue to give birth until I have a boy, otherwise I will be teased when I go back to my hometown." In another case, a 30-year-old woman and her husband were both workers in a factory in Songtao County, Guizhou Province. They had already three children when they fled from their factory to Jishou, and then to Huayuan and Longshan, in order to give birth to a fourth child and in order to seek shelter there. On the bus ride to Fengxian, the woman gave birth to her fourth child. Therefore, as the child had already been born, they were not afraid of being criticized when they went back to their hometown.

More and more people are trying to escape from the policy on birth control. This makes family planning more difficult, but the government still has no effective measures to prevent it.

TRANSPORTATION

Freight Volume Between USSR, Heilongjiang
HK0302130989 Beijing CEI Database in English
3 Feb 89

[Text] Beijing (CEI)—The total freight volume between Heihe City in northeast China's Heilongjiang Province and the Amur region in the Soviet Union surpassed 21,000 tons from January 5 to 30.

The export goods include textiles, garments, electrical equipment, electronic products and machinery. The imported goods from the Soviet Union include chemicals, timber and marine products.

More Local Railways; Fujian Electronics Exports
OW2501035189 Beijing XINHUA in English
0102 GMT 25 Jan 89

[Excerpt] Beijing, January 25 (XINHUA)—Today's economic news briefs:

Locally-Financed Railways

Last year, four railway lines with a total length of 323 km were built with locally-collected funds, bringing the total length of such lines to 3,200 km.

In addition, some 18 locally-financed railway lines, totalling 1,337 km, are now under construction. Six, totalling 468 km, are expected to be put into use this year.

By the year 2000, railway lines built with local funds and run by local governments will reach 10,000 km [passage omitted].

Shanghai Shipyard Launches First Export Ship for 1989

OW2801210489 Beijing XINHUA in English
1543 GMT 26 Jan 89

[Text] Shanghai, January 26 (XINHUA)—The "Moniuszko," a 18,200 dwt [deadweight ton] ship constructed by the Shanghai Jiangnan Shipyard, was launched here today.

The China-designed, multi-purpose ship is the yard's first export ship this year and the last of a series of four it has made for the Chinese-Polish Joint-Stock Shipping Company (CPJSSC).

The "Chopin," another ship in the series, will be officially made available to the user tomorrow.

The CPJSSC, the first Chinese-Polish joint venture, has so far built nine large ships in China, bringing its fleet to 23 ships with a combined dwt of 460,000.

In 1989 and 1990, the 120-year-old Jiangnan Shipyard will manufacture four 65,000 dwt ships for overseas users.

AGRICULTURE

World Bank Loan Helps Yunnan
HK1002062589 Kunming Yunnan Provincial Service
in Mandarin 1100 GMT 9 Feb 89

[Text] According to YUNNAN RIBAO, the World Bank granted a loan of \$48 million to our province in February 1988.

Part of the loan has been used to transform and upgrade the rubber and tea plantations of our province and to develop the planting of coffee, hot pepper, and fruits as well as animal husbandry and the processing industry relating to these products. By the end of 1988, more than 50 million yuan had been used.

The loan granted by the World Bank is on favorable terms and the term of its redemption is long. The loan has instilled new vigor into the exploitation and use of our province's agricultural resources, made up for the shortage of funds for agricultural exploration projects, increased capital input in agriculture, promoted the establishment of commodity bases, and enabled our province to import some advanced technology and equipment.

Agricultural Bank Starts Foreign Exchange Service

OW2701225989 Beijing XINHUA in English
0859 GMT 27 Jan 89

[Text] Beijing, January 27 (XINHUA)—The Agricultural Bank of China will officially launch its foreign exchange service from today on following a successful four-year trial run, CHINA DAILY reported today.

The Agricultural Bank of China is the second largest of the country's four specialized banks and it has a monopoly on banking business in the vast rural regions.

The bank started its foreign exchange service in the coastal areas on a trial basis in 1984 when China's open-door policy had got into full swing, the newspaper quoted Qin Qi, general manager of the bank's international department as saying.

Over the past five years, it has introduced about 405 million U.S. Dollars in foreign capital from the world bank and overseas commercial banks.

The bank has extended the foreign exchange service to clients in 26 provinces or regions, he said.

Its foreign exchange deposits rose by almost 60 percent last year compared with 1987 and money available for loans went up by just over 70 percent, according to Qin.

The service was introduced as an effort to help state-run farms and rural enterprises in the coastal regions develop products for export, to buy advanced technology and equipment from overseas for upgrading their products under the country's current economic strategy of developing its coastal regions.

The bank will give priority to agriculture and export-oriented rural enterprises in the awarding of foreign exchange loans in the future, said Qin.

Taxes Planned on Alcohol Production
OW2101052289 Beijing XINHUA in English
1620 GMT 20 Jan 89

[Excerpts] Beijing, January 20 (XINHUA)—Taxes are to be levied on factories producing spirits in proportion to the amount of alcohol in the drinks, Minister of Light Industry Zeng Xianlin said during a telephone conference with XINHUA.

Zeng said that no spirits producer will be exempt from paying product tax, value-added tax, or income tax.

This move is intended to limit the production of poor quality, but high grain-consuming white spirits, the minister told XINHUA. [passage omitted].

It has been learned that more than 10 million tons of grain were used to make spirits last year.

Revision of Grain Distribution System Proposed
40060197 Beijing ZHONGGUO XINGZHENG
GUANLI [CHINA ADMINISTRATION] in Chinese
No 10, 16 Oct 88 pp 28-30

[Article by Hao Jinwen 6787 2516 2429, Ministry of Commerce: "A Cursory Discussion of Administrative Control Problems in the Flow of Grain"]

[Text] While the country has been busy with reform, opening to the outside world, and enlivening the economy in recent years, the grain circulation sector has come up with the slogan, "a shift from controls to administration," in an emphasis on the use of economic methods to manage the circulation of grain. Rarely, however, has anyone raised the issue of administrative control over grain circulation. It seems to have become a "forbidden zone." This article attempts to explore this issue.

I

Grain is the foundation underlying the national economic foundation. Throughout history, rulers have always paid a great deal of attention to the control of

grain, and have used various means, including administrative, economic, and legal methods to control and manage it. In the development of a commodity economy in which the emphasis is on the use of administrative methods to run the economy, intensification of administrative control over grain circulation remains extremely important.

A. Grain is an important good having a bearing on the national economy and the people's livelihood. Its distribution within the reproduction process differs from exchange and is also intertwined with circulation. This necessitates a proper amount of state intervention and macroeconomic control over it.

B. Though China has a large land area, the amount of land per capita is limited, and grain output is not consistent. Only 400 kilograms per capita are produced each year. For natural and historical reasons, grain production has developed extremely unevenly in different regions. Total supply and total demand for grain are also uneven, and grain will tend to be in short supply for a long time to come. This situation is bound to require the state to intensify administrative control and macroeconomic control of grain.

C. China is currently in the primary stage of socialism in which it is building a planned commodity economy on a foundation of state ownership of the means of production. This inevitably requires planned organization of the circulation of commodity grain. Peasant enthusiasm for grain production depends on party and government formulation of correct policies that arouse enthusiasm. Inasmuch as it is not possible to increase the degree of peasant organization, a certain amount of administrative control remains necessary to lower the costs of doing business.

D. Though grain is a commodity having the attributes common to commodities in general, it is also a basic means of livelihood, the foundation of the national economy, and the basis for all prices. Every country in the world seeks to develop and stabilize its production. How can we imagine the removal of price restraints, the abandonment of administrative control and macroeconomic control, and the institution of free competition and free procurement and marketing of grain?

The foregoing situation shows the need for serious attention to and an intensification of administrative control over grain circulation with positively no laissez-faire attitude.

II

Administrative control over grain circulation is exercised primarily through the drawing up and handing down of command plans, the promulgation of economic policies for grain, the direction of the flow process, and industrial and commercial administrative control. Specifically, first is the exercise of administrative control

authority over enterprises and markets, and the exercise of property ownership authority over state-owned grain businesses. Second is the use of guidance-style production plans, and procurement and marketing plans for principal kinds of grain such as rice, wheat, and corn, with the institution, when necessary, of command-type procurement plans and marketing plans. Third is the building of a grain reserve regulatory system at different levels for the regulation of supply and demand, and to stabilize market prices. Fourth is the application of multiple economic control measures and financial subsidies to regulate grain production, circulation, consumption, imports, and exports. Fifth is the building of a fine market system through grain market legislation and attendant administrative control regulations. Most important is plan controls and policy coordination.

A. State exercise of macroeconomic control over grain circulation through plan controls. As the link between production and consumption, circulation is determined by production and consumption, and also reacts on both; under certain conditions, it also plays a decisive role. Therefore, plan control over grain circulation is an important aspect of plan guidance for grain production and consumption. However, the state need not and should not completely monopolize the flow of grain commodities and directly control them.

Procurement and marketing of grain should proceed from China's realities. Neither should there be a continuation in the same old rut of highly centralized direct plan control as the primary or the sole method, nor should there be a complete rejection of the need for plan controls. Different circumstances will require the use of different methods, including direct plan control, indirect plan control, and no plan control with the market doing the regulating, thereby giving expression to the need for consciously acting in accordance with the body of socialist economic law rather than just any certain pattern.

In a planned commodity economy, the state must exercise a certain degree of direct control over grain circulation; however, the extent of command-style plan control should be gradually reduced, the standard for the amount of decrease being guaranteeing supplies to the armed forces and strategic reserves. The principle to be followed to determine the amount to be purchased and sold should be to let needs determine purchases, maintaining a balance between supply and demand. A combination of economic methods and necessary administrative intervention should be used in the procurement and marketing of this grain to insure fulfillment according to plan. Additionally, the prevailing command-style plan control of grain, including grain rations for the non-agricultural population in cities and towns, should be changed step by step to a guidance-style plan. The procurement and marketing of grain and negotiated prices that state-owned grain businesses currently employ should also be brought under guidance plans,

macroeconomic control and coordination being done as warranted, guidance plans thereby gradually becoming the main way of controlling the circulation of grain commodities.

B. Administrative control is a form of organizational activity. When the state exercises administrative control over grain circulation, one important matter is policy coordination. In view of China's national circumstances and the grain situation, the following policies should be drawn up for grain circulation.

1. Production policy. Production determines circulation. Increase in production is made possible by the improvement of conditions for production, increase in investment, and a rise in both the level of science and technology and administration and management. In order to achieve the country's strategic goals for gross output of grain by the end of this century, the state must now formulate policies to increase investment in agriculture, and to encourage collectives and peasants to invest in agricultural production. Policies must also be formulated to bring fixed procurement prices into line gradually so that fixed procurement prices gradually approach market prices. Within agriculture, the gap in economic returns between one sector and another needs readjustment, strength being drawn from the high end to make up for weakness at the low end in order to safeguard the enthusiasm of the peasants for growing grain. Policies are needed to perfect and to deepen rural economic system reform, to promote a readjustment of land relationships, to strengthen land control, and to encourage the concentration of land in order to increase the economies of scale. Policies are also needed to provide socialized and serialized services to the rural commodity economy before, during, and after production.

2. Circulation policy. The general policies regarding grain circulation should be as follows: Rural villages should provide the grain that the country needs against procurement plans. The price that the state pays peasants should be fair and equitable, exchange being of equal value or near equal value. Both parity price grain and negotiated price grain sold by the state should be made a part of plan, unified planning and complete planning being done that takes all factors into consideration.

When formulating specific policies, the principle should be market regulation of major commodities under plan guidance and market regulation of minor commodities, as well as command-style plans for grain sold at parity prices, and guidance-style plans for grain sold at negotiated prices. In wholesaling, state-owned grain companies should be paramount, supply and marketing cooperatives being ancillary. Diverse economic entities should be permitted to retail grain. For cities, the principle should be that state-owned grain companies operate the grain business; in rural villages, various economic entities can be allowed to deal in grain. Fixed amounts of grain supplied at a parity price should apply to grain

rations for city and town residents; grain for industries should be supplied at negotiated prices. In short, depending on who is involved, there can be control and liberalization, controlled liberalization, liberalized control, and a combination of control and liberalization to complement each other.

3. Consumption policy. The overall principle here should be as follows: Supply in the amount called for in plan, with no additional amounts being supplied outside of plan. Conservation, no waste, and a reduction in the use of grain outside of plan should be encouraged to control the use of grain for livestock feed and the making of alcoholic beverages. The sale of alcoholic beverages should be a state monopoly, tax revenues and profits reverting to the national treasury.

4. Policy toward enterprises. The separation of government and enterprise should be carried out, thereby enabling state-owned grain enterprises to become relatively independent economic entities, themselves responsible for the operation of their business, and themselves responsible for their own profits and losses. Therefore, grain enterprises' profits and losses must be kept strictly separate from government financial subsidies. They may not be co-mingled, nor can enterprises "profits" be used to offset government "subsidies." Simultaneous with their enlivening, enterprises should be placed under state plan guidance and macroeconomic control.

5. Policy about state financial subsidies. Grain prices depend on government financial subsidies, and this is likely to continue for a fairly long time to come; however, the amount of government financial subsidies should be relatively stable. Furthermore, when conditions make it possible, hidden subsidies should become open subsidies. The existing policy has to be changed. Grain subsidy methods such as level-by-level contracting, numerous middlemen, numerous categories, and use of enterprise profits to offset losses must be repealed, the state making direct subsidies to procurement units.

6. State regulation policy. Both the state and all provincial governments should establish grain reserve regulatory agencies able to dump grain on the market or withhold grain from the market in order to regulate the market, and level out prices to protect the interests of producers and consumers alike. The state will have to allocate a certain amount of grain reserve funds to the reserve agencies. As government regulatory agencies, grain reserve agencies should perform government administrative control functions, using the power of government financial resources to regulate grain circulation.

III

Administrative control over grain circulation cannot work without a group of agencies. It will be necessary to set up corresponding administrative control agencies for the development of a planned commodity economy. The

grain circulation system that we envision is a commodity circulation system under state macroeconomic control and plan guidance. Realization of this goal requires a further deepening of reform of the state grain economic system.

On the basis of the lessons learned during the past 9 years in reform of the country's grain economic system, I believe that economic system reform and political reform should be carried out in tandem, government being separated from enterprise, a functional division of labor spelled out, and a coordinated, efficient, and highly effective grain circulation administrative control mechanism established that is able to respond to the development of the socialist planned commodity economy. If this is done, China's grain markets will not be free markets, but state-regulated markets, i.e., planned commodity markets. However, they will not be regulated by state-owned grain enterprises, but rather state functional units will regulate them through the use of economic levers and administrative means. This system would have the following features: 1. It would be forbidden for any one dealing in grain to monopolize grain markets; 2. For the major kinds of grain, market regulation would be under state plan; and 3. Secondary grains would be completely market regulated.

In order to strengthen administrative control and economic control of grain circulation within society, government at all levels would have to set up administrative organizations for the purpose of controlling grain. As integral parts of the government, these organizations would exercise government authority to control grain. More ideally, they would be responsible for leadership and control of production, procurement, marketing, processing, and export of grain in a single continuous process.

In addition to exercising planned control over state-owned grain enterprises, the main duty of grain administrative control units would be to focus on controlling the circulation of grain commodities in society. Grain associations established at all levels would coordinate relationships among units concerned, and do a good job of administrative control and providing services. Industrial, commercial, and government tax units would work together to establish and perfect grain laws and regulations, the law being used to regulate grain and control markets.

Animal Husbandry Developing
OW0702233189 Beijing XINHUA in English
0923 GMT 7 Feb 89

[Text] Beijing, February 7 (XINHUA)—Today's economic news briefs:

Development of Animal Husbandry

China's northernmost province of Heilongjiang is developing animal husbandry as part of the effort to boost agriculture.

The province, one of the country's ten major pastoral areas, now has 480,000 dairy cows. The local authorities have set up a number of farms for breeding cattle, milk cows, hogs, sheep, including fine-wool breeds, and poultry.

Vaccine

After 30 years' effort, the Institute of Veterinary Medicine in Jiangsu Province, east China, has developed a vaccine for controlling pigs' coughing fit.

In protection of healthy pigs it has proved 84 percent successful in trials. For sick pigs it has proved 93 percent successful.

Inner Mongolian Herdsmen Increase Earnings in 1988

OW0102144289 Beijing XINHUA in English
0653 GMT 31 Jan 89

[Text] Hohhot, January 31 (XINHUA)—Herdsmen in the Inner Mongolian Autonomous Region, China's biggest animal husbandry producer, earned on average 28 percent more last year than in 1987, according to recently published figures.

The average income of the 2 million herdsmen in the region reached 850 yuan last year. The average income of the region's 12 million farmers was just under 500 yuan. Both figures were 28 percent increases on the previous year.

The region is now 12th in the rankings of provinces and autonomous regions in the country measured in terms of average earnings, moving up from 18 the year before.

A spokesman for the regional statistics bureau attributed the increase to the achievements of the contract responsibility system, which ties earnings to production, and to higher prices for farm and animal produce.

The region's total grain output last year was 7.38 million tons, a record high. There were 36 million head of livestock by the end of last year.

Jiangsu Aquatic Production

OW3101230389 Beijing XINHUA in English
1621 GMT 31 Jan 89

[Text] Aquatic production output of eastern China's Jiangsu Province reached 1.03 million tons, 11 percent more than the previous year.

It is the first time for the province's aquatic production to exceed 1 million tons in its history. It has become one of the country's five major aquatic producers.

Jiangxi Tobacco Area

40060243c Nanchang JIANGXI RIBAO in Chinese
7 Jan 89 p 1

[Summary] In the past, Jiangxi Province purchased more than 90 percent of its tobacco from other provinces. In 1989 Jiangxi will increase its tobacco area; 535,000 mu have been sown to tobacco, of this area, 428,000 mu has been sown to flue-cured tobacco. The Jiangxi Tobacco Company has purchased 1,800 kilograms of high-quality seeds from other provinces.

Liaoning Increases Farm Project Investments

HK0802114689 Beijing CEI Database in English
8 Feb 89

[Text] Shenyang (CEI)—Liaoning Province has decided to invest 4 billion yuan in the coming five years on five major agricultural projects in the province. Work on some of the projects has begun.

The five projects are:

160 million yuan of state and provincial investment to harness the Liaohe River and prevent it from flooding;

1.4 billion yuan for building the Guanyin Reservoir capable of holding 2.1 billion cubic meters of water so as to solve the water shortage in Panjing, Yinko and Anshan;

1.65 billion yuan to develop the Liaohe River Delta, opening up 53,000 hectares of paddy fields, 53,000 hectares of shoals, transform 53,000 hectares of weed growing land, open up 13,000 hectares for weed planting and transform 66,000 hectares of low-yielding land;

Improvement of 200,000 hectares of land in Chaoyang, Jinzhou and Fuxin; and improvement of the medium and low-yielding hilly land in the northern and western part of the province into terrace land for wheat and grain planting and the transformation of 40,000 hectares of alkaline and low-lying land into paddy fields.

Shaanxi Sees 'Bountiful Harvest of Stock Raising' in 1988

HK1002063989 Xian Shaanxi Provincial Service
in Mandarin 0030 GMT 10 Feb 89

[Excerpts] Last year witnessed a bountiful harvest of stock raising in our province. The gross output of meats, eggs, milks, and wool all topped all previous records. [passage omitted] By the end of 1988 the amount of live pigs reached more than 7.58 million heads and the amount of domestic animals, sheep and poultry increased by a big margin, all recording a new high. [passage omitted] In 1988 the provincial total output of meats, eggs, milks, and wool increased by 14 percent, 32 percent, 11 percent and 22 percent respectively over the previous year.

Shandong Improves Livestock Production
HK3101134789 Beijing CEI Database in English
31 Jan 89

[Text] Jinan (CEI)—Beneficial policies and good provincial government services helped Shandong farmers raise livestock worth five billion yuan last year.

The figure represents a 10 percent rise over the previous year. By the end of last year, Shandong had raised 6.01 million head of farm animals, up 11.6 percent more than in 1987.

Included were 17.22 million pigs, (up 11.3 percent) 17.93 million sheep, (up 27.7 percent) and 200 million geese, ducks and chickens.

An agriculture official said the provincial government increased farm spending by 60 million yuan last year and local governments also issued specific policies to support farmers in raising more livestock.

In addition, the provincial government spread the use of modern scientific farming methods by publishing technical materials and offering workshops to train agricultural technicians.

It also engaged veterinarians to help prevent and control animal diseases.

Animal Husbandry Increases in Tianjin
SK0102133689 Tianjin TIANJIN RIBAO
in Chinese 14 Jan 89 p 1

[Text] In 1988 Tianjin Municipality scored a relatively rapid progress in animal husbandry, sideline production, and fishery. According to statistics of the municipal Statistics Bureau, the 1988 total agricultural output value of the municipality was estimated at 1.77 billion yuan, calculated in terms of 1980 constant prices, showing a 1.2 percent increase over the previous year.

According to statistics, of the total agricultural output value, the output value of animal husbandry amounted to 440 million yuan, a 10.9 percent increase over the previous year; that of sideline production, 240 million yuan, a 9.2 percent increase; and that of fishery, 110 million yuan, an 11.9 percent increase. Various districts

and counties, except for Baodi County, Wuqing County, and Xijiao District, effected increases in their total agricultural output to varying degrees. The increase rate in Nanjiao District was larger than anywhere else. Nanjiao District increased its agricultural output value by 12 million yuan, registering an increase of 17.3 percent.

In addition, thanks to a series of preferential measures adopted over the past few years, including the issuance of loans with discounted interest, and owing to the method of encouraging state departments, collectives, and peasant households to jointly develop pig raising bases, the number of hogs in stock has increased rapidly. At the end of 1988, the number of hogs in stock reached 700,000, a 38.6 percent increase over the 1987 figure of 505,000. Of this, the number of breeding hogs increased most rapidly. At the end of 1988, the number of breeding hogs reached [illegible] a 130 percent increase over 1987. Meat output in 1988 was estimated at 74,700 tons. It is estimated that this year the municipality will witness a big increase in hog production.

According to information specially provided by a pertinent person of the municipal Statistics Bureau, although the municipal agricultural production was affected by waterlogging, windstorms, and hailstorms last year, various districts and counties made great efforts to create a fine environment for agricultural production, reasonably readjusted the structure of grain crops, and expanded the vegetable growing acreage. As a result, the municipality set a record high last year in output of summer grains, with total output reaching 529 million kg, showing a 10 percent increase over the previous year. In addition, vegetable output totaled 1.375 million tons, an 11-percent increase over the previous year. As a matter of fact, it is not easy to achieve such a good result during a disaster year.

Yunnan Grain Procurement
40060243d Kunming YUNNAN RIBAO in Chinese
7 Jan 89 p 1

[Summary] As of 31 December 1988, Yunnan Province had put 870,000 tons of contracted grain in storage, fulfilling 93.2 percent of the task, and was an increase of 38,570 tons over 1987; 330,000 tons of negotiated grain was procured, an increase of 38,290 tons and the amount put in storage increased 76,800 tons over 1987.

Bai Hua Criticized for Remarks Blaming Victims of Japanese Aggression

40050217 Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 228, Jan 89 pp 62-64

[Article by Peng Wenyi 1756 2429 6654: "A Victim of Tyranny, Bai Hua Shows No Sympathy for Other Victims"]

[Text] I am honored to have had the opportunity to meet with Liu Binyan [0491 6333 7159], Pai Yang [2672 2799], Wu Zuguang [0702 4371 0342], and Bai Hua [4101 2901], the four luminaries of our times, in the last few years. Of course I am also privileged to have met other famous people, but these four are no doubt in a class by themselves. Under brutal and overwhelming political pressure, they managed to summon up the moral courage of the traditional scholar and said what they said, for which they have paid a price to varying extents. In this respect they resemble Yin Haiguang [3009 3189 0342], whom I greatly admired during my student days in Taiwan.

Personally I have always refrained from judging intellectuals on the mainland using high moral standards. When some arrogant overseas figures chide certain scholars or intellectuals as "shameless" and "too shameless," I invariably remind myself that it is easier to be your own man when you are abroad, unlike in China where not only your own life, but also the future of your wife and children, may be on the line. Since many people overseas (including myself) swallow indignities for minor material gain, what right do we have to demand that intellectuals on the mainland be superhuman? All of us should know that a "holier than thou" attitude is disgusting.

In addition, the problem with Chinese intellectuals is pan-moralism. Intellectuals overseas who have really been influenced by Western ideas should not cross swords with their mainland counterparts on issues of moral integrity.

I have deep admiration for mainland intellectuals precisely because I do not make excessively stringent moral demands. Besides those mentioned above, I admire people who have been subject to even more brutal assaults, such as Wei Jingsheng [7614 0079 3932], Fu Yuehua [0265 2588 5478], Liu Qing [0491 7230], Ren Wanding [0117 3979 3957], Li Yizhe [2621 0001 0772], and countless others who have made sacrifices in the name of ideals. This admiration makes me and possibly other overseas intellectuals treat them as heroes. They symbolize the spirit of stubbornly choosing good and refusing to be subdued by force. Honestly, therefore, what they say is actually of lesser importance.

It is actually a difficult thing to discuss mainland intellectuals. Their comments on public affairs are part of their indomitable spirit. Thus to remark on what they say may easily be misconstrued as an attack on their spirit and image and would to a large extent end up

helping the devil. Since feeling sympathy for the weak and the victimized is one of the most natural human instincts, ordinarily we should respect the spirit they symbolize and not quibble over what they say. The fear is that we are not doing enough to protect and nurture this voice, which is like a seedling, so how can we attack it?

Paradoxically, however, I want to discuss Bai Hua's public statements here. The reason is that he has expressed some very absurd opinions during his trip to the United States. I hope that my pointing out that he misspoke would not be considered a deliberate attack on this good-natured scholar.

Bai Hua spent September and October on a lecture tour across the U.S. One of his topics was "Projecting China's future from the present situation." (The November issue of CHIUSHIH NIENTAI reported on it, but unfortunately not in detail.) The lecture was a rambling, discursive kind of talk. Basically what he said was that China does not have much hope. Why? Because of the poor quality of the Chinese, political autocracy, and the feebleness of Chinese intellectuals. He stressed in particular the timidity and over-cautiousness of the Chinese, including intellectuals.

He said, "The overwhelming majority of Chinese have this ancient traditional Chinese mentality: they hope that others would say what they dare not say. They are willing to listen and may clap—if everybody else does so. This is because historically the 'law does not punish the masses.' It is like a battle where everybody wants to squeeze into the middle. That is why in this great nation of ours, most people stay in the middle. This is the state China is in today. We cannot deny that. Because of it, our nation has languished for thousands of years." (Quoted in HUACHIAO JIHPAO, North American edition)

Certainly, what is current could not possibly account for thousands of years of stagnation in history. But this is just a poor choice of words we can ignore. Earlier in the century, Hu Shih put forward a "bold assumption." If he could come back to earth today and hear Bai Hua's bold proposition, he would probably have to marvel that the younger generation has surpassed the old. To sum up the He Han debate, which has gone on for thousands of years, in just one sentence really does not make sense. Moreover, is the tendency to "crowd around the middle" the real reason behind the lack of progress in Chinese culture?

But this is not why I want to talk about Bai Hua. There is this interesting phenomenon among some intellectuals: in this day and age they still blame the enormous difficulties China has faced on its road to modernization on the poor quality of the Chinese people. Bai Hua thinks that Chinese are a bunch of gutless people who tend to crowd around the middle. In Taiwan, Pai Yang has also put forward the idea of the "ugly Chinese,"

citing many Chinese weaknesses, including their penchant for infighting. Bai Hua thinks Chinese kowtow to foreigners and Pai Yang says they love infighting. Add them together and the Chinese clearly become a subhuman lot.

Undeniably, national character is worth considering when comparing two different societies. It is often the first factor to come to mind. For example, Milton Friedman, the economist and Nobel Prize winner who just completed a visit to China, said in an interview published in the latest issue of *FORBES* magazine that he is more optimistic about China than about the Soviet Union because, first, the Chinese are more intelligent and, second, China is being influenced by overseas Chinese and Hong Kong. His is not a profound analysis, but we can see that national character is one factor Friedman considered quite naturally.

Still we cannot use national character to explain everything as we please. To being with, national character took shape over a long period of time and is highly stable. Therefore, it cannot be used to explain short-term phenomena. For any one short-term change, we can certainly find other more direct reasons. For instance, under CPC rule, the Chinese economy has developed in a highly erratic way. Basically China is destitute. But you cannot blame the national character for this because you can hardly argue that Marxism, the Soviet communist economic system, the policies of the CPC, and more direct factors such as Japanese imperialist aggression and the civil war all have something to do with the Chinese national character.

Second, what makes the theory that national character has impoverished China even less tenable is the fact that during the same period, Chinese in Hong Kong and Taiwan have created an economic miracle. The progress Taiwan has made in democratization has also discredited the bizarre notion that Chinese character is not suited to democracy. The people of Hong Kong and Singapore are law-abiding and disciplined. That too thwarts any attempt to explain Chinese unruliness with reference to national character.

Third, when we discuss the good and bad points of a national character, we must make a comprehensive comparison at least and weigh the major strengths and weaknesses of the Chinese character against those of other nations. This is a very difficult thing to do. Identifying the characteristics of a nation is tough enough, not to mention deciding what is good and what is bad. (The process is one of subjective evaluation. For instance, Chinese intellectuals admire American individualism even as they praise the group spirit of the Japanese. When Chinese display individualism, however, they criticize it as "disunity" and selfishness. When Chinese are compliant and compromise, they call it weakness. What kind of logic is this?) Unfortunately, people given to talking about the poor quality of the Chinese have little understanding of the outside world

and lack training in the social sciences. As a result, they take a snobbish attitude: he who succeeds becomes king and he who fails becomes a bandit. Since China is backward, the Chinese must be of a poor quality.

However, Chinese like us who live overseas have discovered that there is absolutely no reason why Chinese have to apologize to anybody, including Bai Hua and Pai Yang, for their quality. According to IQ tests conducted at elementary schools in the U.S., Chinese children are generally more intelligent than other races. Their academic and professional achievements provide ample evidence that there is nothing wrong with their quality. China is not doomed to ruin because of its cultural tradition: the achievements of Hong Kong and Taiwan show that there is hope. In the final analysis, therefore, the problem with China is not people, but institutions. Provided the institutions are improved, the many habits and practices Bai Hua and Pai Yang frown upon will soon disappear.

It must be made clear that while I disagree with Bai Hua's argument that Chinese are of a poor quality and with his use of this point to explain everything, I would not criticize him for resurrecting this outmoded idea. I want to discuss him primarily because he made references to the Rape of Nanjing, and in a way that is highly offensive. The Rape of Nanjing was a horrendous crime in human history. For the Chinese, it was a historic event of unparalleled pain. Everybody knows that the perpetrators of the massacre were brutal barbaric Japanese soldiers and officers, not the innocent Chinese. What is clear is that the Chinese were living their normal daily lives when they had this calamity inflicted on them. This is a question we should not even have to ask ourselves: Did the 300,000 innocent victims do anything wrong? But listen to what Bai Hua said:

"Why did they let the Japanese soldiers cut both their hands behind them? Why did they let the Japanese take them to the river banks as prisoners? Didn't they ever think of resisting? I think many people did. But they hoped others would rush at the Japanese first. As a result, nobody did fight back. Even the last person to die did not resist, hoping that he would be spared. I guess he was only thankful for being able to survive for one more hour."

This passage reveals an extremely weird mentality. It is not enough that these 300,000 innocent people died a brutal death. Today, 51 years later, they have to be ridiculed by a fellow countryman, and an otherwise good person at that. We have always regarded Bai Hua as a victim of tyranny, but this victim apparently has no compassion for the victims of a much more terrible fate. Psychologists have discussed at length the phenomenon of victims slighting victims. I am no expert and dare not show off my knowledge. But even in the most positive light, all we can say is that Bai Hua probably did not know what he was talking about.

I recall that many years ago Americans asked themselves this question: Why didn't the tens of thousands of Jews resist as they were being led to the gas chambers? Jewish groups considered this question anti-Semitic and unworthy of a response. The details of the argument I do not remember, but the main point is that since these Jews were victims, anything that questions their conduct has to be based on the assumption that they had done something wrong and is therefore an attempt to somehow hold them responsible for their own destruction. This is absurd because they were innocent. The Nazis were the criminals. Thus Jewish organizations considered this line of inquiry anti-Semitic and racist.

We can only say that this applies to Bai Hua's statements as well. You have absolutely no reason to hold China responsible for Japan's invasion of China. You have even less reason to blame the massacred masses for the murderous rampages of the Japanese soldiers within China. Any talk casting doubt on the victims is in effect an attempt to absolve the Japanese military of its brutal crime.

There is no other position for the Chinese on this issue. We have to ask Bai Hua, "The Chinese love you, but do you love the Chinese?"

Both Bai Hua and Liu Binyan are deeply influenced by communism and are given to demanding that the common people live up to stringent moral standards, firmly believing that they need to be transformed. In this sense, they bear a strong resemblance to Mao Zedong. Mao Zedong's four clean-up movements and his Cultural Revolution fundamentally aimed at cleansing the people's minds of all obsolete ideas and breaking their bad habits. What he failed to understand is that it is neither necessary nor impossible to create 600 million or 1 billion Yaos and Shuns within China. Nor did he realize that a political party or government does not exist to create 1 billion Yaos and Shuns. Instead of showing compassion for the deceased, Bai Hua blames them for not fighting back. In doing so, he uses a rigid standard to evaluate a group of human beings caught in the most tragic circumstances who were made of flesh and blood and could feel joy and fear and finds them wanting. Such a person should be a drillmaster in the military, not a writer.

To say this is not to reproach Pai Yang. My feeling is that this generation of mainland intellectuals, including Bai Hua and Liu Binyan, still think of searching for a way out for China even after suffering their full share of trials and tribulations. But they themselves have gotten lost. Thus what they repudiate should not necessarily be repudiated. And when they affirm (if they do), they are merely parroting others, with none of the moral strength that a true fighter of democracy has. Their journey from intense patriotism to the rejection of anything Chinese cannot but be considered a minor tragedy since the Cultural Revolution.

Fang Lizhi Interviewed on Patriotism, Political Implications

40050215 Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 228, Jan 89 pp 96-98

[Interview with Fang Lizhi 2455 0536 0037 by CHIUSHIH NIENTAI reporter Li Yi 2621 1837 in Beijing on 7 December 1988: "We Must Transcend Narrow Nationalism and Look Toward a World Culture"]

[Text]

[CHIUSHIH NIENTAI] Professor Fang, how are you? First, I want to know your situation lately. You have been prohibited from visiting the United States. What will happen to that?

[Fang] I have not had an answer yet.

[CHIUSHIH NIENTAI] What about the invitation from Taiwan?

[Fang] They have not given me a reply either. I asked them last week and was told they could not say for the time being.

All Things Must Come to An End

[CHIUSHIH NIENTAI] Let's now talk about your correspondence with Mr Peng Peigen [1756 1014 2704]. His letters to you mainly criticized your interview with CHIUSHIH NIENTAI and your conversation with CHENG MING. Have you read both articles? Did the interview records distort your meaning?

[Fang] I have read them and mean every word in them.

[CHIUSHIH NIENTAI] You've read Mr Peng's letters to you. Can you briefly describe the biggest difference between the two of you?

[Fang] Simply put, I think the problem with China today is not a question of East versus West, but the old versus the new, the backward versus the advanced. Some people think it has to do with the difference between Chinese culture and Western culture, which makes it sound like a territorial issue. In my opinion, Chinese culture today is generally backward. We must absorb advanced things.

[CHIUSHIH NIENTAI] What do you mean by culture?

[Fang] I use the word in a broad sense, including science.

[CHIUSHIH NIENTAI] Mr Peng said Chinese culture is inclusive. Like a big melting pot, it can absorb other cultures and so will not die out. What do you think?

[Fang] Why wouldn't it die out? A thing is born and a thing dies. Moreover, it is changing all the time. Since I am a student of the universe, I am particularly convinced

that nothing is unchanging or eternal. That is not possible. The term "Chinese culture" itself does not have a clear meaning. God knows how much China has changed from a primitive matriarchal society to the present.

[CHIUSHIH NIENTAI] Mr Peng thinks Chinese culture is in for a revival. How do you see it?

[Fang] He has not explained what Chinese culture means precisely. If he has Confucianism in mind, then I think he is wrong.

[CHIUSHIH NIENTAI] What about an autocratic political culture?

[Fang] Then he is even more mistaken.

[CHIUSHIH NIENTAI] Maybe he is referring to Taiwan's fast economic growth. Isn't the culture in Taiwan Chinese culture as well?

[Fang] I think there are people in Taiwan who have made clear their objection to this line of thinking. I also believe the older generation of physicists, including people like Wu Tayou [0702 1129 3731], would certainly object to the notion that Taiwan owes its economic resurgence to Confucianism.

Patriotism Has Political Implications

[CHIUSHIH NIENTAI] Mr Peng mentioned that you made references to Einstein's world citizen" views in your interview with CHIUSHIH NIENTAI. Do you think you could clarify that?

[Fang] It is clear what Einstein meant. I think patriotism is politicized and means something quite different from attachment to one's native soil. Traditionally, patriotism was concerned with love for one's country. Moreover, such love took precedence over everything. It was during World War I that the idea that patriotism was not everything was first put forward. If I am asked to choose between patriotism and telling right from wrong, I would of course pick the latter over patriotism. We have a simple saying: "I love my teacher, but I love truth even more." Love for one's teacher is a fine sentiment, but it should not be the most important thing.

[CHIUSHIH NIENTAI] According to Mr Peng, Einstein advanced the "world citizen" concept because of the situation of the Jews at the time. Do you agree?

[Fang] I think Mr Peng's view does not tally with historical facts. Einstein wrote his last article on 11 April 1955. He died on 18 April. In that article, he said that he was not writing as a citizen of Israel or as a Jew. His purpose in writing was to emphasize again the need to look at things from a supranational viewpoint. What he meant was very clear: narrow nationalism is wrong. He had always been consistent in his attitude toward the Jewish people. When Jews were persecuted, he protested.

But regarding the war between Israel and Egypt, he said it was an old-fashioned war, a struggle for power. Thus the most important thing is telling right from wrong. Only then should one consider nationality. This was the gist of this thought. People like us who work in the field of science are receptive to this mode of thinking because there are universal standards for right and wrong in the natural sciences. National standards do not come first in the sciences.

[CHIUSHIH NIENTAI] Were you intensely patriotic and nationalistic in the past?

[Fang] I think so. Mainly the result of traditional education.

[CHIUSHIH NIENTAI] When did you start thinking the way you do now?

[Fang] I think patriotism sometimes coincides with the right thing to do. When it does not, we must be suspicious of anyone who still puts patriotism first. For instance, in the War of Resistance against Japanese Aggression, patriotism coincided with justice: It was right to resist aggression. But the stress on patriotism today is heavily politicized. One is told to love this particular country. Let me cite another example. Both the mainland and Taiwan criticize Hu Shih's Westernization theory. Both attack it from the perspective of patriotism, but for different purposes. Some people in Taiwan say that Hu Shih's Westernization theory in effect opened the door for the Chinese Communists. The mainland's criticism is that Hu Shih's theory turned China into a stooge of imperialism. The two sides are saying very different things, but both claim to be patriotic. This kind of patriotism is not love for the motherland, but love for an organization, love for the machinery of state.

Eagerness To Go Abroad Reflects a Dissolution State of Mind

[CHIUSHIH NIENTAI] Do you think nationalism is a similar sort of thing, that is, what Einstein referred to as "infant disease"?

[Fang] I think so. As I said just now, first we must separate attachment to one's native soil from political implications. Second, this is certainly not something we consider most important.

[CHIUSHIH NIENTAI] On the "dissolution of China," Mr Peng believes that not a single person in Hong Kong, Taiwan, or overseas wants dissolution.

[Fang] I pointed out in the interview that this is China's state of mind at the moment. I can tell you I feel it even more keenly after returning to Beijing. Recently I came across an article in KEXUEBAO on the public zeal to go overseas. It used to be young people who were eager to go

overseas. These days, however, even accomplished middle-aged people are dying to go abroad. They want to go even if it means they have to take jobs for which they are overqualified. It is a sad situation, but true. Why? In the 1950's, everybody wanted to come back, never mind if one had to live in poverty. Today the opposite is true. Why? Nothing other than a dissolution psychology. Moreover, there have been rumors at Beijing University that high schools in the U.S., which are short of physics and mathematics teachers, are trying to get some Chinese university professors to come to teach those subjects. Once the word got out, many people, including several with full professorship, all looked forward to the prospect of leaving. Why? Because they all felt that although much needed to be done in China, the circumstances were such that they could accomplish little.

[CHIUSHIH NIENTAI] In his letters, Mr Peng referred to Hong Kong's return to the mainland. He said that when the agreement was published, he got himself stone drunk. But nobody in Hong Kong showed any enthusiasm. Why the difference?

[Fang] Because people see the future differently.

[CHIUSHIH NIENTAI] Do you think Mr Peng still holds out hope for China's future?

[Fang] I have talked about China's future while in Hong Kong. I am optimistic about the long term.

[CHIUSHIH NIENTAI] But it is precisely because they think there is no hope that people are looking for a way out for themselves. Do you think they are correct?

[Fang] There is nothing I can say to persuade these people to stay. I see no reason why I should persuade them.

Would He Like To See Deng Xiaoping Dead?

[CHIUSHIH NIENTAI] Mr Peng also criticized what you said about Deng Xiaoping.

[Fang] There may have been a little understanding about what I said. I said then I thought Deng Xiaoping should retire. Then someone asked me if I wanted to see him dead. I said no because that would be inhuman.

[CHIUSHIH NIENTAI] Mr Peng asked whether you could have said such a thing in the Mao Zedong era.

[Fang] Maybe he does not know that I was already stripped of my party membership when Mao Zedong was still alive.

[CHIUSHIH NIENTAI] Perhaps the extent of criticism would have been different?

[Fang] That I don't know.

[CHIUSHIH NIENTAI] You want to add to what you have said?

[Fang] Let me say something else. Japan's NIKKEI SANGYO SHIMBUN recently asked me to write an article. This is what I wrote. I pointed out that nonterritorial cultural development was becoming more and more important in the world today. There was a new situation facing mankind. The world culture has come to account for a growing part of our lives. Science, for instance, has been internationalized and does not belong to one particular country anymore. Meanwhile, science has become increasingly important in our lives. Whether you accept it or not, it will continue to develop, in spirit as well as in substance. Previously there were different languages in the world. Now a universal language has appeared in the form of the computer language. Also, airports all over the world are the same; they use the same symbols. This is the result of scientific advances. In addition, the social crises now facing mankind, such as energy, environmental, population, and ecological crises, are all global in nature. No one country can isolate itself from or avoid the crises. How to solve them? We need to create a global culture, in science and other fields as well. These problems affect different aspects of our lives and are not confined to any one nation. In this respect, Einstein's emphasis on world citizenship was constructive. He was keenly aware of world problems.

[CHIUSHIH NIENTAI] Would this make it harder to preserve traditional things?

[Fang] Traditional things would still be preserved. For scientific workers like us, our job is to solve problems currently before us and look ahead. When we run into a problem, our concern is to solve it. As for what to keep and what to discard in the course of problem-solving, that is not something we think of beforehand. A characteristic of science is that it is forward-looking. So I still think what I said earlier is right: if something is going to die, there is no point trying to save it.

People at Home and Abroad Think Differently

[CHIUSHIH NIENTAI] Finally, do you have any other comments on Mr Peng's ideas?

[Fang] I have met other people who think like him, particularly overseas. In the same way that people at home and abroad respond to RIVER ELEGY differently, I suppose this is the result of living in disparate environments. RIVER ELEGY has struck a responsive chord at home, something which a number of overseas people do not quite understand. The same is true with the interpretation of patriotism. Here at home, its political implications are very clear.

[CHIUSHIH NIENTAI] Thank you for agreeing to be interviewed. We will contact you again in the future when we get a chance.

CENTRAL-SOUTH REGION

Guangdong Holds Literary, Art Workers' Meeting *HK1801143589 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 17 Jan 89*

[Text] The Third Congress of the Guangdong Provincial Federation of Literary and Art Circles opened at the Provincial Party Committee Auditorium at 1500 today, under the chairmanship of Comrade Qin Mu. The China Federation of Literary and Art Circles sent a message of congratulations from Beijing. Representatives from the Guangdong Provincial Cultural Department, the Guangdong Provincial Radio and Television Department, the Provincial Federation of Trade Unions, the Provincial CYL Committee, the Provincial Women's Federation, the Provincial Scientists' Association, the Provincial Federation of Taiwan Compatriots, the Provincial Returned Overseas Chinese Federation, and the Guangzhou Military Region Political Department delivered congratulatory speeches at the meeting.

Entrusted by renowned veteran writer Ouyang Shan, who is a responsible person of the Guangdong Provincial Federation of Literary and Art Circles, Comrade Zhu Xijuan delivered a work report at the meeting.

On behalf of the Provincial Party Committee and the Provincial People's Government, Provincial Party Committee Secretary Lin Ruo delivered a congratulatory speech. In his speech, he noted: In the past 10 years, the literature and art undertakings of Guangdong province have developed in a healthy way and a large number of outstanding literary and art works and remarkable middle-aged and young writers have emerged. He called on literary and art workers of Guangdong province to actively plunge into reform, opening up, and the Four Modernizations, and to create more good works worthy of the name of the times.

Present at the opening ceremony today were Liu Tianfu and Ouyang Shan, members of the Central Advisory Commission; Zhong Ming, Cheng Li, Ling Botang, Wu Nansheng, Yang Yingbin, Wang Pingshan, and other responsible persons of the Provincial Party Committee, Advisory Commission People's Congress, People's Government, and CPPCC Committee; and veteran comrade Chen Yueping.

NORTHEAST REGION

Liaoning CYL Committee Elects Secretary at Plenary Session *SK0502235189 Shenyang LIAONING RIBAO in Chinese 14 Jan 89 p 1*

[Text] The fourth plenary session of the eighth Liaoning Provincial CYL Committee was held in Shenyang from 6 to 9 January. Through a democratic election, the session

elected Jin Dong secretary of the provincial CYL Committee; and elected Li Liguang, Wang Yeqing, Luo Lin, and Zhao Guohong [6392 0948 4767] (female) deputy secretaries of the provincial CYL Committee.

Sun Qi, deputy secretary of the provincial party committee, and Wen Shizhen, provincial vice governor, attended and addressed the session.

Quan Shuren Urges Settling Teachers' Back Pay *OW2801110189 Beijing Domestic Service in Mandarin 1600 GMT 24 Jan 89*

[Text] According to XINHUA, at the beginning of this year, Quan Shuren, secretary of the Liaoning Provincial CPC Committee, sent a letter to 63 secretaries of prefectural and county party committees, earnestly requesting them to settle the back pay of teachers in nongovernment-run schools before the Spring Festival if they sincerely intend to help teachers.

According to feedback, the secretary's letter has aroused a strong reaction throughout the province. Some 10 million yuan in back pay owed by the various localities to teachers in nongovernment-run schools will be repaid soon.

Liaoning Armed Police Force Confers Ranks on Officers

SK102044089 Shenyang Liaoning Provincial Service in Mandarin 2300 GMT 29 Jan 89

[Text] The ceremony to confer ranks on second-lieutenant-level police officers of the provincial armed police force was held in Shenyang on the morning of 29 January. Guo Dawei, director of the provincial Public Security Department and first political commissar of the provincial armed police force, presided over the rank-conferring ceremony.

The implementation of the system of police ranks of the provincial armed police force is aimed at meeting the needs of strengthening the building of a revolutionary, modernized, and regularized armed police force. It is a major matter in the history of the armed police force.

On behalf of the provincial party committee, the provincial government, and the provincial People's Congress Standing Committee, Chen Suzhi, member of the Standing committee of the provincial party committee and vice governor, extended congratulations to all police officers who received their ranks. The rank-conferring ceremonies of police officers and policemen of the armed police forces throughout the province will be held successively in various localities. On 1 February, all officers and policemen of the armed police force will put on uniforms with epaulets designating their ranks.

Li Teng-hui, Lin Yang-kang Rivalry Outlined
40050212 Taipei SHIHTAI CHOUKAN [TIME
WEEKLY] in Chinese No 253, 3 Dec 88 pp 12-15

[Article: "The Whole Record of Enmity Between Li Teng-hui and Lin Yang-kang"]

[Text] Were you to ask Lin Yang-kang [2651 3152 3263], "What troubles do you have with Li Teng-hui [2621 4098 6540]," Lin Yang-kang would deny that there were any. If you pressed him, he would still insist, "it's all non-Party magazines stirring up discord and sowing dissension." Thus, when the public confronted him with this question on 26 November, Lin Yang-kang said flatly, "there is no truth to this; how can you expect me to admit it?"

However, if you could get close to Lin Yang-kang and listen to him talk about Li Teng-hui, you would find out that this hearsay most certainly is not "rumors designed to stir up discord and division," but is real. In fact, Kuomintang bigwigs from provinces other than Taiwan also pay "serious

attention" to this point. Were there no ill-feelings and conflicts between Li and Lin, they would not be able to back Lin Yang-kang to restrain Li Teng-hui.

"Use Li to control Lin," and "use Lin to control Li" is, after all, the tactic that the power bloc from other provinces has used repeatedly for the past 10-some years, and it is also an external power tactic of "using the Taiwanese to control the Taiwanese" that the Kuomintang has employed. Tai Kuo-hui [2071 0948 6540], a professor residing in Japan, has even openly published an appeal to Li Teng-hui and Lin Yang-kang, these two renowned Taiwanese politicians, to "link hands in cooperation."

By way of dissecting the resentments and clashes over the past more than 10 years between Li Teng-hui and Lin Yang-kang, this magazine has put together a "complete record of the enmity between Li Teng-hui and Lin Yang-kang," which it clearly presents for the readership, and with the hope of providing Taiwanese with background for consideration.

Date	Position	Cause	Events	Outcome
June 1976	Lin Yang-kang becomes mayor of Taipei. Li Teng-hui becomes member of the government administration committee in Chiang Ching-kuo's cabinet	Chiang family reinstates Lin Yang-kang; Lin Yang-kang shows talent for a time. Li Teng-hui remains in "observation" stage	Lin Yang-kang goes in for large scale construction in Taipei showing talent for a time. Li Teng-hui still holds no real power	Lin Yang-kang the winner
June 1978	Lin Yang-kang elevated to chairman of Taiwan provincial government. Li Teng-hui succeeds to mayor of Taipei	Chiang Ching-kuo seeks a candidate for provincial chairman from among Lin Chin-sheng [2651 6855 3932], Chang Feng-hsu [1728 0023 4872], Lin Yang-kang, and Li Teng-hui. Hsieh Tung-min [6200 2639 7036] backs Lin Yang-kang, and Li Teng-hui is out of the running	Hsieh Tung-min promotes colleague Lin Yang-kang. Li Teng-hui falls behind in the running	Lin Yang-kang the winner
1978-1979	Lin Yang-kang holds position of chairman of Taiwan Province, and Li Teng-hui holds position as mayor of Taipei	Li Teng-hui greatly desires to get out from under "Lin Yang-kang's shadow;" detests being likened to Lin Yang-kang	Li Teng-hui begins "restructuring"; Lin Yang-kang remains ordinary member of Taipei Municipal Government. Lin Yang-kang believes Li Teng-hui is "purposely picking a quarrel"; angered, he transfers Ts'ai Chao-yang [5591 0340 7122] and other old colleagues to important posts in provincial government	No clear winner or loser between Li Teng-hui and Lin Yang-kang; however, acrimony begins

Date	Position	Cause	Events	Outcome
December 1979	Lin Yang-kang holds position of chairman of Taiwan Province; Li Teng-hui holds position of mayor of Taipei		Lin Yang-kang becomes second Taiwanese provincial chairman; demonstrates eloquence in Taiwan Provincial Assembly.	Li Teng-hui pale by comparison
	Lin Yang-kang ranks fourth and Li Teng-hui ranks 14th on Standing Committee of the Fourth Plenum of the 11th KMT Central Committee			Lin Yang-kang the winner
1980-1981	Lin Yang-kang holds position of chairman of Taiwan Province, and Li Teng-hui holds position of mayor of Taipei	Lin Yang-kang exchanges slurs with Sun Yun-hsuan [1327 6663 3894] over the issues of the razing of Chouhou Village, and the cutting down of the Lishan orchard, which are termed "local government defiance of central government." Li Teng-hui shows cleverness	Sun Yun-hsuan angrily denounces Lin Yang-kang's "defiance" in Executive Yuan meeting. Li Teng-hui sits beside Lin Yang-kang watching his every mood. Lin Yang-hsiang believes Li Teng-hui to be adept at playing up to those in power, and as being envious of his talents	Li Teng-hui the winner
March 1981	Lin Yang-kang holds position of chairman of Taiwan Province, and Li Teng-hui holds position of mayor of Taipei	Lin Yang-hsiang exhibits ability, thereby arousing suspicion and jealousy on the part of Chiang Ching-kuo and senior non-Taiwanese senior statesmen who plot to use Li Teng-hui once again, "using Li to restrain Lin"	Lin Yang-kang visits Japan where the Japanese provide a warm welcome, and insinuations are reported back to Taipei. Chiang Ching-kuo decides to have Li Teng-hui take the place of Lin Yang-kang, and Lin Yang-kang is transferred back to the central government where he can be "watched"	Li Teng-hui the winner
April 1981	Lin Yang-kang holds position of chairman of Taiwan Province, and Li Teng-hui holds position of mayor of Taipei	"Lin Yang-kang's charm" and celebrated reputation repeatedly annoys Sun Yun-hsuan; Chiang Ching-kuo decides to "demote Lin and promote Li"	Kuomintang convenes 12th Plenum. Lin Yang-kang's ranking on Standing Committee of the First Session of 12th Plenum is reduced to 18th place by Chiang Ching-kuo, while Li Teng-hui is ranked 15th, ahead of Lin Yang-kang for the first time	Li Teng-hui the winner
December 1981	Li Teng-hui elevated to chairmanship of Taiwan Province; Li Yang-kang transferred to position as Minister of Interior	Sun's cabinet partially reorganized; decision made to transfer the "disobedient" Lin Yang-kang to central government in order to "control" him	Lin Yang-kang sinks as Li Teng-hui rises. Li Yang-kang fashioned into hat-chetman by Sun's cabinet. Lin Yang-kang himself expresses his deep vexation	Li Teng-hui the winner.

Date	Position	Cause	Events	Outcome
1982-1983	Li Teng-hui holds chairmanship of Taiwan Province, and Lin Yang-kang is Minister of Interior	As provincial chairman, Li Teng-hui's style is tough in distinction to the "Lin Yang-kang pattern"	Li Teng-hui shows displeasure at provincial assemblyman's reference to "previous chairman's" political achievements. Li Teng-hui indicates the two are different matters	
Li Teng-hui the winner				
14 June 1983	Li Teng-hui holds position as chairman of Taiwan Province, and Lin Yang-kang holds position as Minister of Interior	Li Teng-hui makes an inspection tour of T'ai-tung County. Discovers at the Sanxiantai scenic area that the Ministry of Interior has issued an order forbidding construction of a pedestrian crosswalk	Li Teng-hui shows anger on the spot; says that "the Ministry of Interior just has to meddle too much!" Discord between Li and Lin comes out in the open	Li Teng-hui the winner
July 1983	Li Teng-hui holds position as chairman of Taiwan Province, and Lin Yang-kang holds Minister of Interior position	Chiang Ching-kuo decides to elevate Li Teng-hui to vice-president	At Central Committee Standing Committee meeting, Chiang Ching-kuo praises and encourages Li Teng-hui for "realism and circumspection." Lin Yang-kang remains Sun Yun-hsuan's puppet	Li Teng-hui the winner
May 1984	Li Teng-hui takes up post as vice-president; Lin Yang-kang transferred to deputy-premiership	Chiang Ching-kuo believes Li Teng-hui holds "no ambitions"; and carefully grooms him; purposely cold toward Lin Yang-kang	Li Teng-hui rises meteorically and Lin Yang-kang appears gloomy, his dreams of becoming vice-president being completely shattered	Li Teng-hui the winner
September 1984	Li Teng-hui is vice-president, and Lin Yang-kang is vice-premier	Lin Yang-kang unwilling to admit defeat; makes Li Teng-hui look foolish whenever he can	Chouhou villagers surround Executive Yuan to the astonishment of all. Villagers accuse Li Teng-hui of going back on his word. Lin Yang-kang takes opportunity to reveal publicly that from the very beginning he had been in favor of "building before razing." Li Teng-hui extremely unhappy	Lin Yang-kang the winner
29 March 1986	Li Teng-hui is vice-president, and Lin Yang-kang is vice-premier	Chiang Ching-kuo intends to use Lin Yang-hsiang to restrain Li Teng-hui again	Kuomintang convenes Third Plenum of 12th Central Committee; Lin Yang-kang's ranking moved from 17th to 13th showing that Chiang Ching-kuo intends using him as a "active player"	No clear winner or loser between Lin Yang-kang and Li Teng-hui

Date	Position	Cause	Events	Outcome
April 1987	Li Teng-hui is vice-president and Lin Yang-kang is appointed head of the Judicial Yuan	In his late years, Chiang Ching-kuo unable to forget Lin Yang-kang's "utility"	Chiang Ching-kuo accepts suggestion of Yu Chi-chung [0151 4764 1813] and others; appoints Lin Yang-kang head of the Judicial Yuan	Lin Yang-kang the winner
13 January 1988	Li Teng-hui succeeds to presidency and Lin Yang-kang is head of the Judicial Yuan	Chiang Ching-kuo dies suddenly	Li Teng-hui succeeds to presidency; Lin Yang-kang administers oath of office	Li Teng-hui major winner
26 June 1988	Li Teng-hui is president, and Lin Yang-kang is head of Judicial Yuan	Li Teng-hui yearns to have his position as Kuomintang chairman formalized; Lin Yang-kang says "it is a wise man who know the tenor of the times"	Lin Yang-kang secretly tells Central News Agency, and openly calls upon KMT members to "rise and elect Li Teng-hui to be chairman"	Li Teng-hui the winner
7 November 1988	Li Teng-hui is president, and Lin Yang-kang is head of Judicial Yuan	Some local Taiwanese leaders want to put their money on Lin Yang-kang	The "two charmers from north and south" use status as member of Democratic Progressive Party to praise Lin Yang-kang as "best person" to be next president	Lin Yang-kang the winner
26 November 1988	Li Teng-hui is president, and Lin Yang-kang is head of the Judicial Yuan	Forces in opposition to Li Teng-hui link up and unite using Lin Yang-kang as a bargaining chip	Lin Yang-kang says in a public speech that he does not rule out the possibility of running for next president	Tense relationship between Li Teng-hui and Lin Yang-kang. Who will gain supremacy unknown.

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